Federal and Provincial Budgeting

This is Volume 41 in the series of studies commissioned as part of the research program of the Royal Commission on the Economic Union and Development Prospects for Canada.

This volume reflects the views of its authors and does not imply endorsement by the Chairman or Commissioners.

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Published by the University of Toronto Press in cooperation with the Royal Commission on the Economic Union and Development Prospects for Canada and the Canadian Government Publishing Centre, Supply and Services Canada

University of Toronto Press
Toronto Buffalo London

Grateful acknowledgment is made to the following for permission to reprint previously published and unpublished material: Canadian Comprehensive Auditing Foundation; Canadian Tax Foundation; Carleton University School of Public Administration; Minister of Supply and Services Canada.

Printed in Canada
ISBN 0-8020-7286-0
ISSN 0829-2396
Cat. No. Z1-1983/1-41-41E

CANADIAN CATALOGUING IN PUBLICATION DATA

Maslove, Allan M., 1946–
Federal and provincial budgeting

(*The Collected research studies / Royal Commission on the Economic Union and Development Prospects for Canada*,
ISSN 0829-2396 ; 41)
Includes bibliographical references.
ISBN 0-8020-7286-0

1. Budget — Canada. 2. Budget — Canada — Provinces. 3. Canada — Appropriations and expenditures. 4. Canada — Appropriations and expenditures, Provincial. 5. Taxation — Canada. 6. Taxation, Provincial — Canada. I. Prince, Michael John, 1952– II. Doern, G. Bruce, 1942– III. Royal Commission on the Economic Union and Development Prospects for Canada. IV. Title. V. Series: The Collected research studies (Royal Commission on the Economic Union and Development Prospects for Canada) ; 41.

HJ2055.M37 1985 354.710072'2 C85-099502-7

PUBLISHING COORDINATION: Ampersand Communications Services Inc.
COVER DESIGN: Will Rueter
INTERIOR DESIGN: Brant Cowie/Artplus Limited

CONTENTS

FOREWORD

When the members of the Rowell-Sirois Commission began their collective task in 1937, very little was known about the evolution of the Canadian economy. What was known, moreover, had not been extensively analyzed by the slender cadre of social scientists of the day.

When we set out upon our task nearly 50 years later, we enjoyed a substantial advantage over our predecessors; we had a wealth of information. We inherited the work of scholars at universities across Canada and we had the benefit of the work of experts from private research institutes and publicly sponsored organizations such as the Ontario Economic Council and the Economic Council of Canada. Although there were still important gaps, our problem was not a shortage of information; it was to interrelate and integrate — to synthesize — the results of much of the information we already had.

The mandate of this Commission is unusually broad. It encompasses many of the fundamental policy issues expected to confront the people of Canada and their governments for the next several decades. The nature of the mandate also identified, in advance, the subject matter for much of the research and suggested the scope of enquiry and the need for vigorous efforts to interrelate and integrate the research disciplines. The resulting research program, therefore, is particularly noteworthy in three respects: along with original research studies, it includes survey papers which synthesize work already done in specialized fields; it avoids duplication of work which, in the judgment of the Canadian research community, has already been well done; and, considered as a whole, it is the most thorough examination of the Canadian economic, political and legal systems ever undertaken by an independent agency.

The Commission's research program was carried out under the joint

direction of three prominent and highly respected Canadian scholars: Dr. Ivan Bernier (*Law and Constitutional Issues*), Dr. Alan Cairns (*Politics and Institutions of Government*) and Dr. David C. Smith (*Economics*).

Dr. Ivan Bernier is Dean of the Faculty of Law at Laval University. Dr. Alan Cairns is former Head of the Department of Political Science at the University of British Columbia and, prior to joining the Commission, was William Lyon Mackenzie King Visiting Professor of Canadian Studies at Harvard University. Dr. David C. Smith, former Head of the Department of Economics at Queen's University in Kingston, is now Principal of that University. When Dr. Smith assumed his new responsibilities at Queen's in September 1984, he was succeeded by Dr. Kenneth Norrie of the University of Alberta and John Sargent of the federal Department of Finance, who together acted as Co-directors of Research for the concluding phase of the Economics research program.

I am confident that the efforts of the Research Directors, research coordinators and authors whose work appears in this and other volumes, have provided the community of Canadian scholars and policy makers with a series of publications that will continue to be of value for many years to come. And I hope that the value of the research program to Canadian scholarship will be enhanced by the fact that Commission research is being made available to interested readers in both English and French.

I extend my personal thanks, and that of my fellow Commissioners, to the Research Directors and those immediately associated with them in the Commission's research program. I also want to thank the members of the many research advisory groups whose counsel contributed so substantially to this undertaking.

DONALD S. MACDONALD

Introduction

At its most general level, the Royal Commission's research program has examined how the Canadian political economy can better adapt to change. As a basis of enquiry, this question reflects our belief that the future will always take us partly by surprise. Our political, legal and economic institutions should therefore be flexible enough to accommodate surprises and yet solid enough to ensure that they help us meet our future goals. This theme of an adaptive political economy led us to explore the interdependencies between political, legal and economic systems and drew our research efforts in an interdisciplinary direction.

The sheer magnitude of the research output (more than 280 separate studies in 70+ volumes) as well as its disciplinary and ideological diversity have, however, made complete integration impossible and, we have concluded, undesirable. The research output as a whole brings varying perspectives and methodologies to the study of common problems and we therefore urge readers to look beyond their particular field of interest and to explore topics across disciplines.

The three research areas, — *Law and Constitutional Issues*, under Ivan Bernier; *Politics and Institutions of Government*, under Alan Cairns; and *Economics*, under David C. Smith (co-directed with Kenneth Norrie and John Sargent for the concluding phase of the research program) — were further divided into 19 sections headed by research coordinators.

The area *Law and Constitutional Issues* has been organized into five major sections headed by the research coordinators identified below.

- Law, Society and the Economy — *Ivan Bernier and Andrée Lajoie*
- The International Legal Environment — *John J. Quinn*
- The Canadian Economic Union — *Mark Krasnick*

- Harmonization of Laws in Canada — *Ronald C.C. Cuming*
- Institutional and Constitutional Arrangements — *Clare F. Beckton and A. Wayne MacKay*

Since law in its numerous manifestations is the most fundamental means of implementing state policy, it was necessary to investigate how and when law could be mobilized most effectively to address the problems raised by the Commission's mandate. Adopting a broad perspective, researchers examined Canada's legal system from the standpoint of how law evolves as a result of social, economic and political changes and how, in turn, law brings about changes in our social, economic and political conduct.

Within *Politics and Institutions of Government*, research has been organized into seven major sections.

- Canada and the International Political Economy — *Denis Stairs and Gilbert Winham*
- State and Society in the Modern Era — *Keith Banting*
- Constitutionalism, Citizenship and Society — *Alan Cairns and Cynthia Williams*
- The Politics of Canadian Federalism — *Richard Simeon*
- Representative Institutions — *Peter Aucoin*
- The Politics of Economic Policy — *G. Bruce Doern*
- Industrial Policy — *André Blais*

This area examines a number of developments which have led Canadians to question their ability to govern themselves wisely and effectively. Many of these developments are not unique to Canada and a number of comparative studies canvass and assess how others have coped with similar problems. Within the context of the Canadian heritage of parliamentary government, federalism, a mixed economy, and a bilingual and multicultural society, the research also explores ways of rearranging the relationships of power and influence among institutions to restore and enhance the fundamental democratic principles of representativeness, responsiveness and accountability.

Economics research was organized into seven major sections.

- Macroeconomics — *John Sargent*
- Federalism and the Economic Union — *Kenneth Norrie*
- Industrial Structure — *Donald G. McFetridge*
- International Trade — *John Whalley*
- Income Distribution and Economic Security — *François Vaillancourt*
- Labour Markets and Labour Relations — *Craig Riddell*
- Economic Ideas and Social Issues — *David Laidler*

Economics research examines the allocation of Canada's human and other resources, the ways in which institutions and policies affect this

allocation, and the distribution of the gains from their use. It also considers the nature of economic development, the forces that shape our regional and industrial structure, and our economic interdependence with other countries. The thrust of the research in economics is to increase our comprehension of what determines our economic potential and how instruments of economic policy may move us closer to our future goals.

One section from each of the three research areas — The Canadian Economic Union, The Politics of Canadian Federalism, and Federalism and the Economic Union — have been blended into one unified research effort. Consequently, the volumes on Federalism and the Economic Union as well as the volume on The North are the results of an interdisciplinary research effort.

We owe a special debt to the research coordinators. Not only did they organize, assemble and analyze the many research studies and combine their major findings in overviews, but they also made substantial contributions to the Final Report. We wish to thank them for their performance, often under heavy pressure.

Unfortunately, space does not permit us to thank all members of the Commission staff individually. However, we are particularly grateful to the Chairman, The Hon. Donald S. Macdonald; the Commission's Executive Director, J. Gerald Godsoe; and the Director of Policy, Alan Nymark, all of whom were closely involved with the Research Program and played key roles in the contribution of Research to the Final Report. We wish to express our appreciation to the Commission's Administrative Advisor, Harry Stewart, for his guidance and advice, and to the Director of Publishing, Ed Matheson, who managed the research publication process. A special thanks to Jamie Benidickson, Policy Coordinator and Special Assistant to the Chairman, who played a valuable liaison role between Research and the Chairman and Commissioners. We are also grateful to our office administrator, Donna Stebbing, and to our secretarial staff, Monique Carpentier, Barbara Cowtan, Tina DeLuca, Françoise Guilbault and Marilyn Sheldon.

Finally, a well deserved thank you to our closest assistants: Jacques J.M. Shore, *Law and Constitutional Issues*; Cynthia Williams and her successor Karen Jackson, *Politics and Institutions of Government*; and I. Lilla Connidis, *Economics*. We appreciate not only their individual contribution to each research area, but also their cooperative contribution to the research program and the Commission.

IVAN BERNIER
ALAN CAIRNS
DAVID C. SMITH

PREFACE

The methodology employed for this study is a varied one, as befits the study's scope and breadth. In the realm of numerate data we have drawn on available statistical information. We have, however, attempted to bring it into a more consistent mode in order to allow interpretation across provinces and time periods. This is explained in a separate Appendix, *Federal and Provincial Revenue and Expenditure Patterns*, which may be obtained from the authors at the School of Public Administration, Carleton University, Ottawa. Our gratitude to our research associate, Herb O'Heron, for the preparation of these data is equal to the magnitude of the task he successfully and cheerfully carried out.

The analysis of provincial budgeting has drawn, in addition, on three modes of study: interviews carried out with provincial budgetary officials both in central agencies and in line departments; a detailed reading of provincial budget speeches and other documents; and the advice of a small group of academic experts knowledgeable about the politics and budgeting of the provinces chosen as case studies. Especially appreciated in this regard was the assistance of James Cutt, Allan Warrack, Iain Gow, Paul Thomas, and Peter Aucoin. Comments by Larry Jones also assisted in improving the final product. In addition, the authors benefited greatly from the doctoral research work being carried out by Christopher Dunn on budgeting in western Canada. Part of Dunn's work was commissioned as a separate paper by this Royal Commission (as cited in several chapters), but in addition we benefited from other insights from his work, which we greatly appreciate.

The analysis of federal budgeting, as our Introduction stresses, is based more on secondary sources. Some of them are our own work, which has been carried out, largely since 1979, in the context of the

regular research required to write and publish the School of Public Administration's annual review of federal budgeting, *How Ottawa Spends*. This work has involved extensive interviews and reviews of federal documents and data on an ongoing basis. Research for this study was completed in the fall of 1984 and thus does not deal with changes that may have occurred in the wake of the election of new governments or leadership changes at the federal level and in Ontario, Quebec, and Alberta.

We thank David Justinich for valuable research assistance. We also wish to thank the secretarial staff at the School of Public Administration, in particular Monica Wright, Bev Riley and Margaret Johnston, for their usual high standards of competence and for their general assistance in our work.

ALLAN M. MASLOVE, MICHAEL J. PRINCE
AND G. BRUCE DOERN

Introduction

The purposes and scope of this study of federal and provincial budgeting in Canada are drawn from two basic frames of reference: the broad mandate of this Commission, and an assessment of where there were basic gaps in the published analysis of Canadian budgeting. As a part of the present Commission's research program, this monograph attempts to shed light on the performance and adequacy of Canada's basic goal-setting and decision-making institutions and processes, the most visible process being budgeting. This requires a review of trends in federal and provincial budgeting since about 1960.

Such a historical perspective was deemed essential in the light of three overall conclusions about the state of existing research on budgeting in Canada. In a review of existing literature in 1982, Paul Thomas identified two of these conclusions.[1] The first was the absence of a comparative study of provincial and municipal budgetary approaches. The second was Thomas's observation about the literature, which he properly characterized as having been transformed from a very narrow technical focus to one where "ultra-realism" prevailed. Thomas concluded that "naive faith in the latest budgetary gadget is dangerous, but equally dangerous perhaps is a thorough-going pessimism which denies any potential for constructive institutional reform."[2] Thus, a key need was an approach which sought this elusive balance between realism and workable reform. The third conclusion we reached about the existing literature was its overall failure to provide an adequate link between the revenue and taxation half of the fiscal equation and the expenditure half. For example, the Royal Commission on Financial Management and Accountability (the Lambert Commission) made numerous recommendations in 1979 about accountability, but without paying much explicit

attention to the tax and revenue decision process or to the effects of past decisions in the tax system. The convenient separation of the two halves was also in evidence in the concerns for "budget reform" which accompanied the preparation of the budget speech by the minister of finance.

There are thus two purposes to this study. The first is to provide a more integrative historical review of budgeting in Canada covering the past 25 years. The second is to examine budgeting, past and prospective, in relation to three overall themes or issues:

- How has federal and provincial budgeting evolved as a basic goal-setting forum and occasion, and can or should its capacity be improved to enhance this basic democratic function?
- To what extent has federal-provincial budgetary coordination been practised in the context of democratic federalism, and what are the implications of this for future or probable institutional reform?
- What does "budget reform" mean in relation to these two questions and in the context of a balanced look at taxation and spending, and at public- and private-sector accountability to and/or scrutiny by elected politicians?

Some further introductory points about these two purposes are necessary, both as to emphasis and as to the sources and methodology employed.

To obtain a more integrative historical analysis, the research had to strike three separate analytical balances where possible, namely a balance between federal and provincial budgeting, between revenue and expenditure budgeting, and between budgetary outputs and processes. On the first item, it was clear that there was more published literature on federal budgeting. Accordingly, given the inevitable scarcity of time and resources, we focussed on acquiring basic primary information on provincial budgeting. For federal budgeting we relied more on existing literature. On the expenditure versus revenue balance, we attempted somewhat more original research on the revenue side, especially at the federal level. In this regard, we also drew on aspects of the Commission's research on the politics of economic policy, including a paper on "The Politics of the Deficit" by David Wolfe. On the outputs versus process balance, two points are worthy of introductory emphasis. First, by "outputs" we mean aggregate data on budgetary decisions. We do not examine budgetary outcomes. Some indirect reference is obviously made to debates about outcomes, but they are not the focus of the study, given that other parts of the Commission's research deal with such impacts in particular policy fields. In general, we have had to do more original digging on the process side, particularly with regard to provincial processes. We have, however, attempted to advance the analysis of conventional output data in three ways. The first is by taking existing data on broad expenditure functions and expressing them in basic per

capita constant dollar measures. The second is by examining the recent history of budgetary restraint in relation to such data and in a federal and comparative provincial context. The third is by disaggregating the data more than any study has done to date, so as to obtain a somewhat more subtle portrait of expenditure patterns, in different political settings but also at the federal level.

We make no claims to have fully addressed all these balances, but we have sought to help fill some gaps so that the Commission's research can both build on existing work and advance it where possible. Since the study of budgeting is inherently an interdisciplinary task, we have drawn on material from political science, economics, public administration and management. Given our overall purposes, however, and the absence of a focus on actual budgetary outcomes, it is fair to characterize this study as being more on the politics of budgeting than on the economics of budgeting.

The audience for this study is not a homogeneous one. For the general informed reader we have attempted to present a basic portrait of the key features of budgeting, including a sense of history and of earlier notions of the ongoing debate about budgetary reform. For the specialist reader most of this will be familiar ground. The latter, however, will find some new ground broken in the ways identified above and, we hope, in our effort to recast the old story in new clothing.

This monograph is organized in four parts. Part I presents a brief review of the general institutional setting and of key concepts that are inherent in the three questions posed above. Chapter 1 provides the basic institutional stocktaking. Chapter 2 focusses on the issue of budgets as goal-setting and tactical occasions, lodged in a basic understanding of earlier phases and debates about budget reform. Chapter 3 introduces the basic aspects of budgetary coordination in a federal system.

Part II examines federal budgeting, with separate chapters on expenditure and revenue budgeting, a separation symbolic of the separate ways in which the federal budget process seems too often to function and to be debated.

Part III examines provincial budgeting, with Chapter 6 describing the process in formal terms, and Chapters 7 and 8 examining the dynamics of provincial budgeting. The division of content between Chapters 7 and 8 is somewhat arbitrary and arises out of the sheer volume of the material that has to be examined, given our efforts to advance our primary knowledge of provincial budgeting. Chapter 7 presents three initial portraits: the underlying regional economies; the dominant features of political regimes and leadership styles; and aggregate budgetary data. This is followed by a more particular look at the five provinces chosen as case studies. Chapter 8 then examines the degree to which counter-cyclical or Keynesian-styled fiscal policies have been pursued by the provinces; the nature of political rhetoric; the goals pursued; the rela-

tionship between budgeting and basic electoral calculus; the internal cabinet-bureaucratic dynamics; and recent developments in formal pre-budget consultations. Throughout Part III we speak of "the provinces" in two senses. When output data are used we include all ten provinces. When "process" is discussed (and for some other purposes) we examine only five provinces: British Columbia, Alberta, Ontario, Quebec and Nova Scotia. This limitation was needed for practical reasons. The provinces selected as case studies do, however, cover the regional spectrum of the country, and they embrace a diverse range of political parties that have held power since the 1970s in particular.

Finally, in Part IV, we bring together two sets of concluding observations. The first, in Chapter 9, is in the form of a review of the issue of budgetary restraint. Experience with restraint concepts and strategies at the federal and provincial levels since the mid-1970s are examined in relation to the three issues, namely goal setting, the meaning of reform, and intergovernmental coordination. Chapter 10 offers concluding observations about these three issues and about the institutional reform they suggest.

Part I

Basic Dimensions and Key Concepts

Chapter 1

The Basic Dimensions of Budgeting

The first three chapters provide a brief discussion of key concepts and of the basic institutional underpinnings of budgeting in Canada. They provide the conceptual basis for our overall line of argument regarding the three issues set out in the Introduction. With respect to goal setting, we show (in Chapter 2) that the role of the federal budget in some respects has declined in terms of its inherent capacity to act as an important and desirable goal-setting occasion and as a forum of basic democratic communication about the economy, though not necessarily about the broader state of the political economy. The budget retains its importance as a short-term tactical occasion, but its tactical role has reached what we regard to be excessive proportions. The escalation of tactical budgeting at the federal level is in part a function of the increased frequency of budgets; but it is also due to many other factors, which will be examined in later chapters.

Concerning the issue of federal-provincial budgetary coordination, we show (in Chapter 3) that there has been a remarkable amount of coordination over the entire period examined and that the remaining degree of uncoordinated behaviour cannot be considered harmful, given the fact that democratic federalism is intended to allow for reasonable degrees of freedom to meet the needs of regionally diverse political economies. When these two points are combined with the larger debate about budget reform, we are persuaded that the major institutional imbalances in budgeting are not fundamentally intergovernmental in nature but rather are public-private in nature. That is, there are two overall weaknesses regarding accountability. The first is the failure to provide for the same degree of sustained political scrutiny of the taxation/revenue system that legislative bodies apply to spending. The second is the failure to provide

forums for the sustained scrutiny of private interests, which are key beneficiaries of fiscal decisions. Modern budgetary scrutiny requires mechanisms that apply a searchlight on both public and private power.

To get from here to an explanation of these and other related conclusions is not a simple journey. We shall begin by presenting the most basic dimensions of budgeting, namely the general institutional setting, the role of budgeting as the central dynamic of governing, the role of budgeting in the context of the growth of government, and the central structures of budgeting.

The General Institutional Setting

Four basic macro institutions are highlighted here: cabinet-parliamentary government, federalism, international institutions, and interest groups and interests. This macro-institutional setting is all too easily relegated to the dustbin of textbook formalism, to be contrasted later with "real" behaviour. To regard the macro-institutional setting in this way is to misunderstand the basic dimensions of budgeting. Institutions are rooted in behaviour and in core ideas and beliefs about how democratic politics ought to be conducted and, in significant ways, are conducted.

From cabinet-parliamentary government, budgeting inherits the concept that only the executive, the cabinet, can introduce money bills and expenditure initiatives.[1] It also inherits the notion that elected legislative bodies grant "supply" and hold ministers to account, collectively as a cabinet and also as individuals. Cabinets are to govern responsibly. Opposition groups in Parliament are to oppose, criticize, and prevent clandestine governing. From the evolving system of Canadian federalism, budgetary behaviour and norms are influenced not only by the assignment of powers and by several major joint expenditure programs and equalization arrangements, but also by constitutional limits on the powers of taxation.[2] The federal government can tax by any mode or means, whereas the provinces can impose direct taxation only. One level of government cannot tax another, a reality that has led, along with other causes, to the use of Crown corporations to capture revenue shares. Expenditures are less constrained by purely constitutional features, but the use of the "spending power" has been controversial and has helped produce an elaborate array of conditional grants and interdependent federal and provincial programs, including an equalization system now sanctified in the Constitution Act of 1982.

Interacting with the above two political institutions are two other macro institutions, albeit ones not as easily described in brief paragraphs. International institutions include formal international bodies such as the Organization for Economic Cooperation and Development (OECD) and the General Agreement on Tariffs and Trade (GATT), as well as foreign bodies such as the United States Federal Reserve, whose

decisions have profound international consequences. There is a wide range of influences present here, from the informational and professional fiscal-policy analytical network fostered by the OECD — to the subtle calculations that GATT increasingly induces in deciding whether, and in what form, subsidies and loans should be used — to the hard coercive realities of interest-rate and deficit-financing decisions and pressures from "the Fed." Last but not least, one should also include in this international institutional network the circulation of ideas and paradigms of what constitutes good macro-policy or good fiscal policy, including Keynesianism and monetarism and their "neo" varieties.[3]

Even less easily described is the political world of interest groups and interests. Interest groups are formal associations of business, labour, agriculture, and other sectors which have high budgetary expectations to be resolved on the tax side by finance ministries and on the spending side by "their" department(s), assuming that they have one. The notion of "interests" is perhaps even more important in that they include large individual corporations and individual governments which do not have to rely only on lobbying and exhortation. They actually possess the power within limits to invest or not invest and to respond or not respond to various government incentives delivered through the tax system or through direct expenditures. Interest groups, on the other hand, have fewer direct powers, though the power of some can be enhanced by their alliance with key interests and with provincial governments in situations where their industry or sector is of special regional importance.[4] Many groups take positions on overall fiscal policy and on particular areas of spending and taxation. They are the beneficiaries of many tax and expenditure provisions, but their positions are arguably the least subject to sustained public scrutiny by elected political bodies. In this regard, our study takes as generally valid and important recent observations about the sheer proliferation of a large array of interests and interest groups. These have been characterized in various ways, including the concept of rent-seeking behaviour and the evolution of a more rights-oriented society, both in Canada and in other Western democracies.[5]

Budgeting, Values, and the Central Dynamic of Governing

Budgeting can also be cast in somewhat less specific institutional language. It can be viewed as the central or at least most visible dynamic of governing, since it is a quantifiable manifestation of governmental decisions. Consequently, one is able to understand more of the subtleties of politics. Not all budgetary decisions are big decisions. Some are, but most are not. Nevertheless, in both big and small senses, budgeting is power — that is, the process of determining who gets what. It is therefore a central part of the process through which the main ideas and values in Canadian political life are expressed, ranked, balanced or

frustrated. Economists who specialize in public finance usually express the normative dimensions as the "efficiency-equity" trade-off or as "stabilization, distributive, and allocative" trade-offs,[6] but these categories do not sufficiently capture the values inherent in spending decisions that are currently being made or those encapsulated in past decisions that are enshrined in the so-called A-base of the expenditure pie (which in any given year is about 90 percent of "the budget") and in "the tax system" (the latter being the cumulative history of previously granted tax incentives, breaks and loopholes).

In addition to efficiency and equity, budgeting reflects concern for ideas such as stability, redistribution, regionalism and nationalism, which are sometimes expressed through these words and sometimes (as we shall show in Chapters 4, 5, 7 and 9) in other rhetorical but nonetheless real clothing. These ideas are layered over with still other ideas — perhaps better labelled as paradigms — which have influenced the conduct of fiscal and monetary policy and to which we have already referred.[7] Thus, monetarism and Keynesianism have influenced the nature of budgeting. We shall examine these in Chapter 2, since they are central to our discussion of the various ways in which the debate about "budgetary reform" has evolved over the past half century.

Budgeting, however, does not deal only with the desired future goals or "ends" of political life. It is also a process and hence induces concern about other ideas. These show that the process is itself valued and is therefore not merely a means to certain desired ends. Such process-related ideas take numerous forms and produce both desired and undesired behaviour. Thus, the overall budgetary process in a system of cabinet-parliamentary government is intended to hold elected ministers "accountable" and responsible for their decisions. Yet the modern process also induces the frequent de facto practice of a doctrine of "ministerial irresponsibility," which selectively accepts credit when good results can be claimed and which strenuously deflects blame onto others (ministers or levels of government) when bad results are apparent or decisions are unpopular. "Process" norms also call for consultation and participation with affected interests and interest groups, but such groups have widely varying power bases and money, and hence vary in their capacity to afford to be able to participate.

In addition to the day-to-day notions of accountability and consultative democracy, budgeting is governed by the desired and perverse dictates of electoral politics, by partisanship, and by the electoral cycle.[8] Thus, from time to time, election mandates properly produce democratically desired budgetary decisions. At other times, raw electoral calculus produces behaviour that, while understandable, is not warmly applauded. Thus, as Chapter 8 will show, "political" spending increases occur as voters are "bribed" with their own tax dollars; or else pre-election tactics for restraint speak soothingly of the need to "manage"

better, and only after the election do the draconian "details" become apparent. Thus, election mandates, which ought to be the first line of accountability, produce varied budgetary output processes.

Finally, there is the budgetary process that is the essential grease for the cabinet wheel.[9] Cabinets are quasi-representative collections of diverse persons who want to do good things in the most genuine ways but who also have high expectations of being able to demonstrate, at least on occasion, that they have influence and power. So too do their senior public servants and the departments and agencies they head. The budgetary process must in part accommodate these needs, and such accommodation may or may not coincide with "desirable" program needs or efficiency criteria. The internal process also produces political and bureaucratic demands for varying definitions of "good analysis" so that decisions are "carefully thought out." This can stretch out "the process." Concerns for timely and decisive budgeting, on the other hand, can lead to demands to shorten the process so that decisiveness can be demonstrated. Thus, the cabinet and executive produce both an institutionalized and a highly personalized budget process as ministers and officials with widely varying bases of power manoeuvre to do public and private good.

Budgeting, the Growth of Government, and Other Policy Instruments

When one relates budgeting to the growth of government and to the use by governments of other policy instruments, other dimensions become important as well. Budgetary data, especially on the expenditure side, provide the most readily available evidence of the growth of government since the 1940s. Public spending in the aggregate has therefore been the focal point for broadly ideological views about how far government should be allowed to grow and about the need for restraint or even a reduction in spending in absolute terms. In relation to other Western countries, Canada usually falls into the middle of the pack on the proportion of GNP controlled by government.[10] This has not rendered it immune from the overall debate, in part because of ideological debate between political parties and ideological factions within the two main political parties, and in part because of the media spillover of the U.S. debate, in which the ideological character has been especially strong and in which the overall "Government is the problem" thesis has been aggressively argued.

While expenditure growth is without doubt the main visible evidence of the growth of government, it is at the same time highly misleading as the only evidence, since governments have other policy instruments that must also be aggregated. The tax instrument is obviously one of these, and it will be examined in this monograph. Suffice it to say at this stage

that the ways that taxation and hence the revenue system are brought into the debate about the growth of government vary greatly among different political interests. Thus, on the one hand, high levels of taxation are easily woven into the larger criticism of government by those interests which oppose government intervention. On the other hand, the fact that tax expenditures (the revenue that governments forgo to pursue certain policy purposes) have increased in the 1970s at an even greater rate than normal spending has been ignored by these interests, or else they regard it as not constituting intervention, even though for every favour so granted, someone else must and does pay.[11]

Here we should point out that such policy instruments as regulation, Crown corporations and mixed enterprise, and exhortation or "suasion" are not a part of this study in any direct way.[12] The terrain covered in this monograph is ambitious enough without including other important dimensions of government. Two cautionary notes follow from our focus on the taxation and expenditure instruments and our exclusion of others. First, this places limits on what we can say in a total sense about the growth of government debate and therefore about the overall debate on restraint. As noted above, our study of restraint strategies and practices is a key part of our analysis, but it does not deal with regulatory restraint or with the increases in regulation that often arise because of the practice of expenditure restraint. Second, despite our exclusion of these other instruments, they cannot be wholly expunged from one's thinking about budgeting, since they are in part substitutes for spending and taxation, and involve different degrees and kinds of political control of the decision-making process.

The Central Structures and Processes of Budgeting: An Initial Profile

While the broad political dimensions surveyed above are by far the most important realities of budgeting, it is also essential to have an initial profile of the central structures and processes of budgeting, since they are the focal points for day-to-day decisions on, and scrutiny of, budgets. More specifically, one must have an initial profile of the role of structures such as finance departments, management boards and legislative auditors, and one must appreciate basic features of the tax or revenue process as distinct from the expenditure process at both the federal and provincial level. Since a more detailed analysis will follow, we shall highlight only key points here.

When one looks at all eleven of Canada's main governments, their finance departments or treasuries vary in the degree to which they control even nominally the full range of the revenue-expenditure spectrum. At a minimum, the finance department has virtual monopoly

control over tax decisions and over the initial determination of the aggregate expenditure totals for any given year.[13] In some governments, detailed expenditure bargaining and haggling with departments is carried out by a separate treasury or management board composed of other ministers, while in other governments these activities are more likely to be carried out by the Finance Department itself.

The legislative audit and scrutiny of expenditures also varies considerably. Until the invention of comprehensive auditing, or "value for money" auditing, in the mid-1970s, legislative auditing across Canada tended to fit a classic legalistic mould; the concern was to ensure "honesty and probity" in spending but without commenting on programs and their effectiveness (the latter being viewed as an inherently political function). The promotion of comprehensive auditing added to the auditing function a concern over the adequacy of "systems" of management and decision-making, though it still eschewed any direct criticism of programs per se. Thus, auditing has become a broader concept, certainly in the federal setting and in limited ways in four provinces as well.

As to the scrutiny of decisions by legislatures during the actual approval of taxation measures and the expenditure estimates, the processes vary somewhat. As we shall see in Chapter 6, in some jurisdictions expenditures are parcelled off to separate committees for detailed scrutiny while in other jurisdictions they are examined in a committee of the whole. Taxation measures tend to be debated in the legislature itself, the focal point being the budget speech. In all cases these committees or arenas are controlled by the government party; thus, the capacity actually to change decisions is virtually nonexistent.

While this skeleton sketch will be fleshed out in later chapters, two overriding features flow from these structural characteristics, and they in turn create different dynamics for the tax versus expenditure processes. First, the tax process principally involves only one or two ministers (the finance minister and the premier or prime minister) and thus involves a concentration of power. This is aided and abetted by the tradition of budget secrecy, a practice intended to prevent persons from acquiring prior knowledge of tax changes in order to profit from such knowledge, but conceived in the 19th century when the prime source of revenue was the tariff.[14] The expenditure process involves more ministers and thus a greater dispersal of power; although the power is not evenly dispersed among all ministers, it is certainly more dispersed among a few key ministers than the tax process is.[15] As Chapter 8 shows, in some provinces the premier plays a detailed role in expenditure decisions, but among the provinces as a whole the above proposition is valid.

A second feature to note is that the annual timing of expenditure and tax budgets is different at the federal level and at the provincial level. At

the provincial level the budget speech (containing the tax and fiscal measures) and the expenditure estimates are presented within a few days of each other or at exactly the same time. At the federal level, not only have they in recent years been presented months apart, but there has frequently been more than one budget speech and/or economic statement per year. These differences can affect the degree to which budgets can be useful goal-setting occasions which help communicate an integrated picture of the ongoing revenue-expenditure connections and of the priorities being enunciated by a government.

The brief account presented above of the basic dimensions of budgeting is vital to understanding our examination of federal and provincial budgeting writ large. However, an exploration of the specific questions posed in the Introduction requires a second level of analytical preparation; it requires a closer look at what it means to speak of budgets as goal-setting and tactical occasions, and it requires an examination of previous budgetary reform agendas. This is the task to which Chapter 2 is devoted.

Chapter 2

Budgets as Goal-Setting and Tactical Occasions

As this chapter will show, students of budgeting usually identify a common list of key reform stages in the evolution of budgeting. These include the era of balanced budgeting, the Keynesian era, various forms of managerial rationality from program budgeting to "value for money" auditing, and the recent more general critiques of excessive spending and burdensome taxation. Moreover, there have been varying kinds of concern about accountability to basic democratic institutions and processes, including particular debates on budget secrecy, pre-budget consultation and legislative scrutiny. While these stages and issues are reviewed in this chapter, they are discussed in such a way as to draw particular attention to the larger but perhaps less frequently appreciated underlying functions of budgets as goal-setting and tactical occasions.

The dual terminology of "goal-setting" and "tactical" functions is used with some caution. The former refers to the general function of the budget and its presentation as one of the main ways in which a government gives a basic sense of direction to the country or to a province and gives some sense of the climate and economic conditions to a host of private decision makers. The latter refers to the role of the budget as an important tactical political occasion when central positions can be announced and reannounced, and when a government can regroup or re-energize itself in respect to the Opposition or to specific problems. Obviously, the distinction between the goal-setting function and the tactical function is not always crystal clear, but we argue that the shift in the balance of the two functions, especially since the mid-seventies, has been sufficient to warrant serious concern. The goal-setting function has declined in some respects and has changed in others. For instance, if the budget is seen as an economic occasion to set out and/or discuss basic

goals such as employment, price stability, and international competitiveness, then it has declined in the performance of this function. It has changed in that the budget, in its fullest sense, contains a wider array of goals, including social policy goals. It has also changed because the tactical imperatives have changed. These are in part a product of sheer economic volatility, but they also reflect subtle changes in the triad of relations between the government, the opposition and the media. We argue that this is especially the case at the federal level. Its causes are numerous and they reflect forces both in the main realms of political power — federal-provincial and public-private — and in the configuration of imbalances referred to earlier, taxation versus spending and outputs versus process.

Our concept of goal setting does not include the planning function of budgets. All budgets seek to plan in the sense of providing a description of intended governmental fiscal behaviour for the following twelve months, but they do not represent an elaborate central plan for the economy. The notion of goal setting implies a looser sense of direction, on which private citizens, corporate and business decision markers, and other governments can generally rely. But if goal setting has a looser meaning, then it sets up the possibility of creating an analytical straw man. Were budgets ever good at goal setting? If not, how can this role be said to have declined? When budgetary goals become more numerous and therefore in some respects less clear, is this evidence of regression or of progress? When does a goal-setting function become a tactical occasion? The judgmental nature of these categories and questions is obvious. The "proof," or rather the balance of evidence as to the utility and validity of the argument, will be "in the pudding" in the actual task of doing it. In this chapter we begin this task, but the full analytical test must await the presentation of the details of federal and provincial budgeting in Parts II and III.

There are three basics involved in appreciating the role of budgets as goal-setting and tactical occasions. The first is the need to understand the overall nature of budgetary goals as reflected in the main historical budget reform stages. The second is to review the recent experience with budgets as goal-setting occasions, that is, the experience since the mid-seventies. The third is to analyze the general features of different kinds of spending and taxation so as to appreciate some of the present and future limits to flexibility and adaptability, that is, to shift goals and priorities. This is a necessary component in forming judgments about what "reform" and "restraint" mean and about what future degrees of manoeuvrability Canada's eleven ships of state are likely to have.

Budgetary Goals and Major Historical Reform Stages

Budgetary goals have been the outcome of debates that one can roughly assign to three historical periods: pre-World War II, the 1950s and 1960s,

and the 1970s and early 1980s. These debates are manifestations of even broader debates about the nature of government and its relationships with private citizens, interest groups and interests. We shall discuss these three periods briefly so as to show as starkly as possible how most of these goals and ideas still reside in budgetary systems and thus constitute divergent normative standards against which budgets may well be judged by different interests and by budget professionals.[1] These are in addition to the goals and ideas already introduced in Chapter 1.

In the pre-World War II period, budgeting was influenced by a concern for balanced budgets and fiscal rectitude. The state was like the household. One had to live within one's means. The legislative control regimes reflected this dominant concern. Control systems were detailed in nature and were intended to promote honesty and probity in the use of public funds. Shady contracting practices and "horses on the payroll" were budgetary sins to be pursued with equal vigour. Key budgetary officials were more likely to be accountants than economists.

Then came Keynesian economics. Beginning in the war years, but blossoming in the 1950s and 1960s, the Keynesian paradigm was critical in two respects. First, it provided, in combination with key reports such as the Beveridge Report in the United Kingdom, a rationale for government intervention which was otherwise not acceptable in the politics of Western capitalist countries. At one level, this enabled the political promotion of social programs — not as welfare but as a necessary part of a strategy to stabilize the economy and promote growth. It therefore changed the entire coinage of debate. At a more specific level, it provided a justification for demand management and countercyclical budgeting, and therefore for the use of aggregate spending and taxation instruments as fiscal policy tools. Second, Keynesian economics provided a more explicit justification for deficit budgeting. The state was not like a public household. Within limits it could spend more than it took in, as long as some of the eventual balancing took place through surplus budgeting during good times. Third, Keynesianism focussed attention on the goals of economic growth, employment, price stability and short-term stabilization.

While Keynesian concepts provided a new macro underpinning for budgeting, the micro dimensions of budgeting were gradually being influenced by other ideas, which in part reflected a new managerial ethos and which in part grew out of the emerging professionalization of budgeting. In the early 1960s this was symbolized first by the philosophy of the Glassco Commission, headed by businessman J. Grant Glassco. The commission articulated a "Let the managers manage" credo which sought to free departmental managers from the stifling effects of the detailed controls systems then in place. It focussed on managing the government and virtually ignored the fact that this task was closely related to management of the economy. In the late 1960s these early canons of the new rationality were joined by others, including the

adoption of the concept of planning, programming and budgeting (PPB). The latter was nominally embraced by the new Trudeau regime, which brought with it the prime minister's own then often-stated preference for a more rational form of politics. As we shall see in Chapter 6, similar rationalistic notions of budgeting found their way into many of the provincial governments.

The articulation of rational budgeting philosophies is not to be equated with their actual practice. Practice could not help but part company with theory to some significant extent; since politics (viewed as both power and ideas) imposes a rationality of its own. This was made manifest by the fiscal and budgetary dynamics of the early and mid-1970s, when the growth of public expenditure accelerated, partly because of revenue windfall gains caused by inflation. This allowed governments to collect additional revenues simply because inflation pushed taxpayers into higher marginal tax brackets.[2] Part of the response was to introduce indexation. However, underlying the newly perceived fiscal crisis was a larger set of ideas about the connection between budgeting and politics. These ideas joined forces with remnants of the mid-to-late-1960s view of rationality, but they were now clothed in a much stronger conservative ethos, which increasingly viewed government as "the problem" and drew concerted attention to the underlying goal of an efficient, more market-based economy.

At the macro level, this new ethos centred on the adoption of monetarism and on the partial rejection of Keynesianism. The notion of discretionary anti-cyclical fine tuning became suspect in the wake of new empirical evidence about the lack of an inflation/employment trade-off.[3] Inflation was best dealt with, and stable growth ensured, through monetary targeting. Public spending was to be kept at rates of growth that would not exceed the trend line growth in GNP. These were officially adopted by the government of Canada in key economic statements and budget speeches beginning in 1975. At the micro level, the accompanying concerns for expenditure rationality were symbolized by the activities of the auditor general of Canada, who promoted the need for "value for money" auditing and program evaluation to stem the tide of expenditure growth and runaway government.[4] It was due to his lobbying that the Lambert Commission was established, the final report of which further advanced this cause. A further manifestation of these crosscurrents of budgetary politics was also apparent in the emerging debate over user fees, and hence over who pays for marketable or quasi-marketable public services. This debate showed up in several sectors, including postal services and medical care.[5]

When combined with the adoption in 1979 of envelope budgeting, it could be said that by the early 1980s budgeting was increasingly being imbued by the new conservatism. Yet the picture of budgeting and the debate over goals would be incomplete if left as this point. This is

because the revenue system was also the subject of dispute, which heightened in intensity in the midst of the deep recession of 1982 and 1983. This debate centred on the fairness and complexity of the tax system.[6] As already stressed, the rate of growth of tax expenditures in the 1970s exceeded that of regular spending. This made the tax system less equitable (since the rich benefited more than the poor from these tax breaks) and less efficient (since the system was so complex and bureaucratic). This in turn fostered a range of debates, including those on the flat tax-rate system, the growth of the underground economy, and the heavy-handed tax collection practices of Revenue Canada. The attempt in the November 1981 federal budget to practise tax reform also led to new calls for better consultation before a budget speech, especially with the business community. It was in this sense that the meaning of "budget reform" in the mid-1980s became clouded by the tendency to separate the revenue/tax system from the expenditure system, or at least by the highly selective ways in which different interests made the political connection between revenue and expenditure.[7]

One manifestation of this can be seen in the growing debate on budgetary deficits in the last half of the 1970s and in the early 1980s. We do not examine deficits in a full political-economic context in this study, but the growing size of deficits is obviously a key factor in the broader debate about budgetary restraint and budgetary reform examined in Chapters 9 and 10. As a background to this analysis, it is necessary to keep in mind basic trends in the data on deficits.

Table 2-1 provides an overview of public sector deficits and surpluses from (calendar years) 1961 to 1982 on a national accounts basis. In the aggregate, the Canadian public sector ran fiscal surpluses consistently from 1964 to 1974 (inclusive) and it has had deficits consistently since. The experience of the federal government was more varied in the pre-1975 period, but from 1975 the federal government has been consistently in deficit.

Of particular interest among the provinces are British Columbia and Saskatchewan, each of which incurred deficits in only one year of the period shown. Alberta has experienced large surpluses since 1973, but before then it was consistently in a deficit position. Ontario experienced both surpluses and deficits in the first part of the period; since 1970 it has incurred a deficit every year.

Budgets as Goal-Setting and Tactical Occasions: Recent Experience

Budgets in the form of the budget speech and/or the tabling of the annual expenditure Estimates constitute one of the two major non-election occasions in which a government attempts to communicate to its citizens and to private decision makers its view of national or provincial

TABLE 2-1 Surplus or Deficit, by Level of Government (1971 dollars[a])

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Newfoundland	−18.6	−14.9	−42.8	−64.4	−39.6	−45.3	−106.7	−59.6	−18.0	−14.9	−55.0
Prince Edward Island	−5.1	−1.7	3.2	−9.2	11.7	−11.0	−9.0	−3.6	9.0	3.2	6.0
Nova Scotia	1.7	11.6	−1.6	−7.7	11.7	−28.8	10.3	−24.3	39.3	−39.3	−32.0
New Brunswick	−10.2	−3.3	15.8	−35.3	7.7	−1.4	−21.9	−9.7	−41.6	−4.2	−18.0
Quebec	−209.8	−127.1	−71.3	−141.1	−283.0	−270.6	−106.7	−96.1	53.9	−198.5	−151.0
Ontario	−113.4	19.8	−66.6	42.9	155.4	196.4	−11.6	92.5	244.9	−21.2	−315.0
Manitoba	−37.2	−11.6	−23.8	−16.9	5.9	−1.4	7.7	28.0	36.0	52.0	30.0
Saskatchewan	6.8	64.4	30.1	26.1	38.1	11.0	−6.4	2.4	31.5	4.2	51.0
Alberta	−96.4	−51.2	−11.1	−27.6	−30.8	−200.5	−299.5	−153.3	−116.9	−105.1	−109.0
British Columbia	6.8[b]	21.5[b]	269.0	112.0	129.0	129.1	123.4	180.0	153.9	116.8	148.0
Total provincial including territories	−475.5	−92.4	−156.9	−124.2	—	−245.9	−433.2	−68.1	358.4	−243.1	−470.0
Federal	−693.7	−836.6	−453.2	529.1	797.7	317.3	−108.0	−13.4	1,160.6	282.4	−145.0
All governments[c]	−1,412.9	−1,165.0	−988.9	151.8	303.5	583.8	190.2	610.7	2,151.7	855.6	130.0

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Newfoundland	−77.4	−64.5	−51.8	−60.9	−59.4	−9.3	−4.8	−28.6	−21.8	−31.0	−33.0
Prince Edward Island	2.8	0.9	−6.7	2.6	4.5	−3.1	−6.7	−1.3	−0.4	−1.4	0.6
Nova Scotia	24.3	3.4	−10.4	−21.2	−34.5	22.7	−33.4	−48.0	−14.8	−96.5	−65.1
New Brunswick	−17.7	6.0	8.9	−35.9	−50.4	−40.3	14.8	17.2	−24.9	−22.7	61.7
Quebec	−233.2	−131.4	82.9	−409.0	−578.4	−724.3	−289.0	−560.1	−966.9	−750.6	−625.4
Ontario	−354.5	−199.3	−142.9	−923.7	−733.4	−573.1	−624.7	−323.4	−420.2	−391.7	−775.4
Manitoba	9.3	−28.4	−46.6	−59.0	−56.0	−32.5	−49.6	−34.8	−54.1	−81.3	−110.0
Saskatchewan	60.6	83.3	111.0	32.8	14.1	29.9	52.5	81.0	101.2	93.4	35.4
Alberta	−121.3	30.1	491.5	447.4	594.2	766.1	1,136.9	636.6	1,144.4	1,071.3	966.4
British Columbia	97.0	229.4	85.7	−91.0	32.8	202.9	180.7	209.0	61.9	125.4	68.4
Total provincial including territories	−644.6	−87.6	482.6	−1,125.6	−873.2	−378.9	257.7	−57.6	−166.9	−70.3	595.8
Federal	−528.0	332.5	820.9	−2,435.1	−1,919.1	−3,770.3	−5,067.2	−4,017.2	−3,844.4	−2,405.8	−6,264.0
All governments[c]	75.6	1,075.6	2,068.8	−2,595.5	−1,823.4	−2,583.9	−3,478.3	−2,036.9	−2,842.0	−1,324.5	−5,782.5

Source: Statistics Canada, *Provincial Economic Accounts, 1961/76 to 1967/82*, Catalogue no. 13-213.

Note: The presentation of the data in this table differs from the data presentation in the separate appendix in two respects. First, the data in this table are on a calendar-year rather than a fiscal-year basis. Second, the data here are on a national accounts basis rather than being the financial management statistics used in the appendix. The reader should also be warned that data from Catalogue 13-213 are experimental data, which are more likely to be revised for conceptual or methodological reasons than is usually the case.

a. The price index used to convert Statistics Canada data into constant dollar terms (in millions) was the implicit price index of the "government current expenditure on goods and services." As the Statistics Canada data were rounded to the nearest million, the conversion to constant dollar terms has, no doubt, introduced increased rounding error, particularly when the original data were relatively small amounts. However, as only a small proportion of the data was relatively small, the error introduced is insignificant and generally the data should be highly comparable.

b. For the calendar years 1961 and 1962 British Columbia data also include data from the Northwest Territories and the Yukon Territory.

c. Includes local governments, hospitals and Canada Pension Plan/Quebec Pension Plan accounts.

goals and priorities. The other main occasion is the Speech from the Throne.[8] On a more infrequent basis, "crisis speeches" by the prime minister or premier may serve a similar purpose. A budget, therefore, in an important way is a state occasion, an event that potentially combines both an act of political theatre in the best sense of the word and an act of imparting information to decision makers in order to give some sense of direction to society as to its current state, its future choices, and the path the government believes is the most desirable one to follow. Since budgets are only one of two such major occasions, it follows that they do not reveal all priorities and that budget speeches do not reveal all budget-related matters.

In view of the importance of this goal-setting occasion to our analysis, we shall here give a brief outline of the four general dimensions of this facet of budgeting (which, in Parts II and III, will be examined in detail at both levels of government). These four dimensions are the frequency and timing of budgets; the nature of budgetary documentation and information; the role of the political opposition; and the role of the media.

Budgets are annual events, or at least they are supposed to be. The tabling of the expenditure estimates has followed the annual cycle expected of it at both levels of government. As we mentioned earlier, the expenditure and revenue budgets are tabled more or less simultaneously at the provincial level; the sense of a single occasion is thus reinforced. At the federal level, an annual budget speech has not been the norm since the mid-1970s. This has partly been due to the invention of substitute occasions when the finance minister can make an "economic statement" without having a full six-day parliamentary debate; it is also due to the economic instability of recent years and to the consequent increased pressure by the opposition and the media to have "another budget," almost regardless of what the last one said or what effects it had. Thus, a distinct paradox emerges, for just at the time when the content of budget speeches stresses the need for medium-term stability and an aversion to discretionary fine-tuning, there are more and more budgets. If budgets are more frequent and decision makers know that another one is not far off, the sense of a goal-setting occasion is diminished. These additional occasions can in some respects be characterized as budgets "for show," though not in the best theatrical sense, referred to earlier, where a society learns something about itself. Instead, budgets become, to an excessive degree, tactical occasions.

The greater emphasis on budgets as tactical occasions is a function of many features of modern society and politics. The monthly tabling of unemployment and inflation statistics, interspersed with the latest Gallup data on party popularity, helps generate the insidious "Let's have another budget" pressure. The cycle is, of course, not a product of information only; it also reflects how the government, the opposition, and the media interact to produce the latest version of the budgetary

follies. The debate is clouded further by the numerous ways in which budgetary data are presented. Deficits look different depending on whether they are presented on a national accounts basis or on a public accounts basis and on whether or not "off-budget" assets and liabilities are included. Annual percentage increases in corporate profits can be portrayed in the mass media and in partisan debate as extravagant, but without explaining what the base comparison is. Thus, profits can increase by 33 percent in one year (a big number) if the profit increases from 9 percent of some measure to 12 percent (three percentage points being a small number). Program evaluations, often of a one-shot nature, can be published to pronounce a program a failure or success, with little or no appreciation of the evolution of the program in question or of the time frame in which results can reasonably be judged. Numerous think tanks compete to present their views of the forecasted state of the economy and of what budgets should preferably look like, thus increasing the professionalization of the budgetary process, but not necessarily its political clarity.

There have been many efforts to improve the budgetary documentation available at the federal and provincial levels (see Chapter 6). Since 1979, the federal government has taken steps to publish a four-year expenditure plan, to publish its estimates data in three parts with increasingly detailed kinds of information, and to publish a tax expenditure account (albeit for two years only). In its own way, each kind of data is useful and desirable; but in the end, it is not clear that this is the kind of analysis and data that the opposition, the media, or private interests really wanted or have used. Opposition pressure and criticism in the budget process is still informed more by classic opposition political tactics — that is, by a calculation that governments are best criticized in a form of trench warfare by embarrassing the party in power, and by a process of enabling the government to "defeat itself" by allowing a thousand grievances to fester into a political boil. According to this view, grand alternative priority positions are not presented until absolutely necessary.

Similarly, the positions that key private interests hold on the economy or on the two sides of the fiscal equation are not systematically viewed or criticized in any sustained way either in Parliament or outside it. At first glance, this would not appear to be a key issue. After all, on the revenue/tax side, the budget speech is itself intensely debated and tax measures are sent to committee for scrutiny. On the expenditure side, the estimates are presented and then parcelled off to several committees. One can also point to recent reforms, such as the publication of a tax expenditure account, both by the federal government and the B.C. government (both for two years only) and the Saskatchewan government; the tabling of a four-year fiscal plan; improved estimates documentation; and the vastly expanded mandate and staff of the auditor

general's office. Within the federal government, the envelope system was partly intended to ensure that direct expenditures and tax expenditures were analyzed as partial trade-offs and substitutes for each other. The Office of the Comptroller General served as a catalyst to ensure that government programs were evaluated on a regular basis.

What then is the problem? Where is the imbalance? Fiscal policy is a set of views about the relationship between spending and taxation/revenue, applied to a perceived state of the economy at a given period of time. Although each budget is scrutinized, the cumulative effects of these single-decision occasions are not necessarily scrutinized in a sustained way in the core democratic institution, Parliament itself. The initial imbalance is that taxation and the tax system receive much less sustained scrutiny. A form of first-line scrutiny occurs, as described above, but most of the second line of scrutiny (that is, most of the key reforms noted above) deal with spending far more than with taxation. Certainly, private interests keep an eye on particular tax measures; but the tax system, save for the giant exercise of the late 1960s and early 1970s that followed the work of the Royal Commission on Taxation (the Carter Commission), is not subject to anywhere near the same degree of scrutiny as the expenditure system.

While there are limits to parliamentary reform, which can be discussed only in a larger institutional context, this initial imbalance is of considerable importance in its own right, not just on the grounds of general accountability but also because of its contributing effect on the nature of macro-budgetary debates, such as that on the causes of and cures for the deficit. For example, as we show in Chapter 5, in the latter half of the 1970s the increasing deficits were due more to declining revenue that to the growth of spending. The revenue declines were in turn caused by the sheer decline in the economy, combined with policy reasons and political pressures lodged in a stagnating economy. It is fair to say, however, that the dominant theme in the public debate during this period was that deficits were caused by "out-of-control" spending. Meanwhile, during this same period, the federal government's 23-sector industrial policy task force exercise, which brought together business and labour representatives, produced recommendations for a veritable wish list of further tax breaks and incentives. Had they been granted, they would have cut federal revenues in half.[9]

The point of using this example is not to suggest that there are not a number of subtle interactions involved in making tax policy, but to show the relative imbalance in the accountability process as it affects the taxation half of the fiscal coin. This first imbalance is closely linked to the second. The primary function of parliamentary scrutiny is to keep government accountable. On the other hand, in an age of big government, when tax and expenditure programs benefit major private interests, it can be argued that the task of Parliament must increasingly

extend in more sustained ways to exposing and scrutinizing the key fiscal, industrial and macro policy positions of major interests in the private sector, including business, labour, agriculture and consumer groups. The current process is far too hidden and ritualistic. It does not pose the same tough questions to the interests themselves which these same interests ask of government. Nor does the questioning process occur in a reasonably sustained public forum.

Changing Priorities and Limits on the Adaptability of Goals

The previous sections suggest two realities about the goal-setting nature of budgeting in a historical sense. The review of key reform stages and ideas suggests that there has been a considerable capacity to adapt, but it also indicates that budgeting is now overlaid with a stew of contending concepts that have evolved with no overriding consensus about the dominant concept at either the micro or macro level. Moreover, budgeting has been professionalized, and this contributes to further intellectual "cubbyholing." Our review of recent experience with budgets as goal-setting events suggests, especially at the federal level, a deterioration in whatever unambiguous capacity budgets may have had in the past as goal-setting occasions. We shall return to these themes later in the monograph, after looking at federal and provincial budgeting in greater detail. In the meantime, there are other features of budgeting and of the inherent characteristics of spending and taxing which should be surveyed briefly. These affect the nature and degree of flexibility and adaptability, and hence the capacity to change goals and priorities in a reasonable democratic way.

First, it is a fact that in any one- or two-year period perhaps only 10 percent of the budget (that is, expressed either as direct expenditures or as forgone revenue) can usually be changed in any practical way. This also suggests something of the magnitude of the marginal impact of federal fiscal policy on the economy, in that if 10 percent of the budget can change in a discretionary way, then only small changes can occur when compared to the GNP. When one adds all the normal lags and distortions which cause fiscal policies to stray from their appointed journey (leakage because of an open economy, limited provincial policies to counteract federal policy, frequent budgets and hence confusing signals), one has an initial glimpse of why there is frustration about the modern processes of macroeconomic management.

A second manifestation of the flexibility/rigidity question is that which accompanies distinctions between statutory and non-statutory spending. All spending requires some kind of legislation, but the distinction here is between spending approved through normal budgetary legislation (non-statutory) and that approved through other statutes (statutory).

The latter includes major intergovernmental spending programs which have multi-year agreements built in or periods of notice required before changes can be made. These are surveyed in Chapter 3 and include the equalization payments that have in fact been entrenched even more through constitutional guarantees in the Constitution Act of 1982. Estimates vary, but at least 60 percent of the budget is statutory in this sense.

When viewed from a provincial perspective, this dimension is also vital but is manifest in very different ways. For example, several provinces are dependent on statutory federal transfers for as much as 50 percent of their revenue. Others are not "have not" provinces, but they are largely dependent on a single revenue source. Among these provinces is Alberta, which depends on resource revenues for over 50 percent of its budget. This situation produces flexibility and rigidity, depending on the state of the resource economy in any given period of time.

There are also de facto and legal limits on the flexibility with which taxes can be used or changed. In general, tax treaties make it more difficult to discriminate among firms on the basis of such criteria as ownership. Spending is more flexible in this sense; but even here, certainly relative to 20 years ago, the General Agreement on Tariffs and Trade (GATT) and other regimes have reined in on the degree of flexibility available through a concerted attack on non-tariff barriers, the latter being almost a synonym for an array of domestic industrial policies and subsidies.

A further distinction of no small importance is the flexibility, or lack thereof, implied by different patterns of expenditures on transfers as opposed to payments for goods and services.[10] Transfers predominate at the federal level and, excluding debt, have accounted for by far the greatest part of the increase in federal expenditures in recent decades. Expenditures on goods and services, on the other hand, have stayed fairly constant at the federal level but have increased at the provincial and local levels. These levels also have a higher total share of capital expenditures. When these factors are combined with the normal dictums for Keynesian demand management, namely that countercyclical policies are supposed to promote a greater use of goods, services, and capital investment, the federal manoeuvrability is even more constrained. Coordinating capital projects and procurement in this countercyclical manner is difficult enough within one level of government (as the federal government's 1982–83 fast-tracking effort on capital projects showed), let alone among ten provinces and numerous major cities.

Finally, flexibility is affected by the constraints imposed by program areas that are personnel-intensive as opposed to grant-based, or where personnel issues are linked with intricate capital equipment decisions. An example of the former is found in areas such as external affairs, justice and corrections, education and defence. Defence is a pre-eminent example of personnel-capital links, since the purchase of major weapons

systems involves very long lead times for equipment that must last a decade or more. Such purchases also involve intricate trade-offs between total personnel establishments and the nature of the equipment being acquired. Personnel-intensive programs also have the highest probability of engendering conflict through the collective bargaining system and hence involve other practical and very political difficulties.

Summary

This chapter has taken the analysis to its second stage, one in which we have examined the issues of goal setting and tactical budgeting by relating them to earlier reform stages, to the professionalization of budgeting, to recent features of budgeting including budget frequency and information, and to the built-in features of budgeting that condition the degree to which change and adaptability are possible.

All in all, these features of budgeting suggest a high degree of congestion, in which future manoeuvrability is limited, short of a major act of political will. Whether this is good or bad depends on a host of factors, including the cumulative levels of support or criticism of major expenditure program and tax elements. These existing elements represent a composite summary of past decisions and accommodations arrived at in the rough-and-ready (and therefore imperfect) democratic process that has characterized Canada's past. In all of the above we have referred only to the intergovernmental dimensions as an element of our discussion. It deserves a more focussed look, particularly in the context of our concern about shedding light on what it means to speak of "budgetary coordination."

Chapter 3

Budgetary Coordination in a Federal System

To appreciate the general nature of budgetary coordination in Canadian federalism, two overall tasks are necessary. The first is to review the key linkages that exist in federal systems, and the second is to examine the three basic dimensions of coordination that arise — namely the assignment of powers and other basic intergovernmental grants and arrangements, budgetary outcomes, and the budgetary process. In this chapter we do not attempt a full review or description of these, since there is extensive literature on the subject.[1] Rather, we highlight basic features so as to examine the basic nature of budgetary coordination.

The word "coordination" often rolls off the lips of political and managerial reformers as if its meaning were unambiguously clear. To be coordinated is to be virtuous. To be uncoordinated is to be gangly and awkward. In political terms, however, coordination is often merely a synonym for power. To be uncoordinated is to be free to pursue different paths. Clearly, the meaning of budgetary coordination in a federal system must be explored and not merely asserted as a virtue. It can imply a process through which governments take account of one another's actions, or it can be equated with the achievement of outcomes. It can also imply the process of genuine consultation or political aggressiveness and even brinkmanship.

The notion of coordination must ultimately be viewed in the context of a federal society governed by two levels of government, to which varying and shifting allegiances are owed both as social actors and as voters and partisan political participants.[2] Federalism exists as a form of government because a federal society exists that contains diverse linguistic, cultural, ethnic and spatial realities. These produce demands and effects which are imperfectly reflected in partisan political contests and inter-

governmental politics that are far from uniform.[3] Various analytical labels have been applied to the changing overall character of federalism, including "cooperative federalism," "executive federalism," and, in the era of provincial aggressiveness, "province building."[4] These analytical labels, while never wholly accurate, do convey different notions of coordination and hence of the exercise of political power, not only through budgetary means but also through other policy devices. The era of cooperative federalism in the 1960s was not only a description of apparent attitudes at the time; in retrospect, it may have been cooperative precisely because there was a growing fiscal pie about which to be cooperative. The greater combativeness of the 1970s (and especially since 1975), which province building sometimes implied, occurred in a fiscally more restrained era (the existence of large oil and gas rents notwithstanding).

Intergovernmental Linkages

The essential elements of a federal system that impact on government budgeting involve the numerous and close interrelationships among the private and public sectors of the various jurisdictions. These linkages are of three broad types: the existence of open regional economies; areas of joint expenditure responsibility; and the reality of having to tax the same tax bases and the same citizens.

First, the political units composing the federal state form a collection of small, open regional economies. Capital flows are unrestricted across the boundaries of the constituent jurisdictions. The flow of labour, in all skills and all occupational categories, is in general limited only by the costs imposed by geography, not by legislative edict or regulatory measures. Goods and services flow freely and are not hampered by tariffs, quotas or other barriers.[5] Moreover, the regional economies are sufficiently small and sufficiently specialized for the economic openness to be consequential; that is, substantial flows of people, goods and capital actually occur.

In budgetary discussions this economic openness is addressed in terms of "leakages." Because of flows of goods and resources across boundaries, the impact of a fiscal measure taken by the government of a regional jurisdiction is diluted.[6] Resources can partially escape the burdens of various tax measures by moving out of the taxing jurisdiction. This adjustment is, of course, an additional alternative to the range of available supply adjustments that do not involve interjurisdictional mobility (e.g., by modifying work behaviour in response to personal income tax measures). The stimulative impacts of expenditures are similarly diluted; a major portion of the benefits accrue beyond the jurisdiction's borders. By the same token, of course, budgetary actions of other governments also "leak in" to a given jurisdiction. In some

discussions these leakages are reflected in estimates of low multipliers associated with fiscal measures.

The second broad type of linkage is the area of joint expenditure responsibility. Two (or more) levels of government often provide public policy outputs in the same domain, either as a result of explicit constitutional concurrent responsibilities or as a reflection of the de facto evolution of responsibilities over time. Whatever the source of these concurrencies, the interest here is simply in their existence and in their budgetary dimensions. (Such concurrencies may also entail joint regulatory responsibility.)

Linkages of this variety can be manifested in three ways. First, each of the different levels of jurisdiction may provide programs in the same policy area, in awareness of programs of the other level but without any attempt at formal coordination. For example, the federal and provincial governments may both pursue their own agricultural or industrial policies. Perceptions of policy duplication, and policies working at cross purposes, are often the outcome. Secondly, the jurisdictions may work together to develop policies, with each government implementing its own programs within the agreed broad policy parameters. Some aspects of housing and energy policies could be characterized in this way. Thirdly, joint responsibilities may result in fiscal arrangements in which the federal government's participation consists of funding in support of programs that are delivered by the provinces and/or municipalities. Social welfare services are an example. We shall return to this point later in this chapter.

The third broad area of linkage is the area of government revenues. Governments at both levels of jurisdiction tax the same bases and, in total, the same citizens. Sharing tax bases gives rise to obvious issues of coordination, whether the two levels tax the same base independently or through some formal tax-sharing agreement. The major objective of tax harmonization (between the federal and provincial levels of government) is to arrive at a tax structure which, in the aggregate, taxes the revenue base at an appropriate level. For example, it would clearly be counterproductive for income to be taxed by both levels in a way that made the overall tax rate equal to 100 percent or more. Tax harmonization is crucial in these circumstances, because failure to coordinate can result in the destruction of the tax base to the detriment of both levels of government and to the detriment of the economy. Canada's cycle of five-year tax agreements achieves considerable coordination in this regard.[7]

Tax coordination among provincial governments is also important. Here the failure of coordination is likely to lead to under- rather than over-taxation. Tax competition among regional units may take the form of tax holidays or other forms of preferential treatment. This issue is really the revenue counterpart to the expenditure leakages noted above. An individual jurisdiction can stimulate its regional economy to some

extent by offering preferential tax treatment to certain types of economic activity in comparison with other jurisdictions at the same level. If successful, the rate reduction may lead to an expansion of the tax base of sufficient magnitude that tax revenues (the rate times the base) do not decline and may even grow.

However, if all jurisdictions attempt to play this game, the regional stimuli are likely to cancel one another out, causing a decline in revenues from this source for all jurisdictions.[8] Moreover, from an economic perspective such a seemingly happy situation of low taxes may be undesirable. The artificially low tax rate may produce an inefficient stimulus to one type of economic activity compared with others. In addition, the tax competition may result in distributive effects that are not desired by any jurisdiction.

Three Dimensions of Coordination

Given the forms of linkages outlined above, how can we define budgetary coordination in a federal government system like Canada's? Three dimensions of coordination merit examination: the assignment of powers and other intergovernmental grants and arrangements, budgetary outcomes, and the budgetary process. These are not alternative definitions of budgetary coordination but are different aspects of it.

The Assignment of Powers and Intergovernmental Grants

First, the assignment of powers and the array of intergovernmental institutions impose a certain amount of coordination on the budgets of jurisdictions. In traditional public finance treatises and texts,[9] the assignment of expenditure responsibilities and revenue sources to the various levels of government was in large part designed to minimize leakages, spillovers, and the like. According to this classical conception, each government would be autonomous in its own spheres of policy so far as was feasible. The openness of the regional economies vis-à-vis each other would best be handled by the assignment to the national government of macroeconomic stabilization and most distributive functions. Some public policy spillovers would be minimized by matching, as closely as possible, the jurisdictional assignment with the geographic range of the policy output. Other externalities would be accommodated efficiently by a system of conditional grants from senior to lower level jurisdictions or by means of agreements between jurisdictions at the same level. Economies of scale in production, a closely related factor, would also be a determinant. Revenue sources would be assigned to governments primarily according to the mobility of the tax base, with the regionally mobile bases being taxed by the national government.

CHART 3-1 Major Intergovernmental Budgetary Coordination Arrangements

Equalization
Established Programs Financing
Canada Assistance Plan
Canada Health Act
Economic and Regional Development Agreements
Oil and Gas Pricing Agreements
Tax Agreements

Any loose ends that remained could be handled in a quite straightforward fashion through various intergovernmental grants and arrangements. Chart 3-1 lists the main arrangements, each of which supplies considerable coordinating impact. A mismatch between revenue structures and expenditure responsibilities could be corrected by means of unconditional grants (revenue sharing). Generally, this would mean that the senior level, which had access to larger tax sources relative to its expenditures, would make payments to the junior level. It is worth noting that unconditional grants in this classical conception were to be different from the equalization payments that are an integral part of the Canadian federation. The classical unconditional grants were to be paid to the junior governments as a group, in recognition of an expenditure-revenue structural imbalance. By contrast, equalization payments are paid to some provinces with fiscal capacities below a "norm" that is based on the capacities of other provinces.

As noted above, conditional grants in this federal structure would play an important role in achieving public sector efficiency. It is likely, given the diverse assignment criteria, that some interjurisdictional externalities would continue to exist. In particular, jurisdictions supplying public services with positive externalities would tend to provide less than the optimal quantities, because a portion of the benefits would not accrue to their own residents. By offering conditional cost-sharing grants in support of these services, the senior level of government (presumably one that captured the full benefits of the services) could reduce the effective cost faced by the junior jurisdictions and could thereby induce them to increase their supply quantities to the optimal levels.

The system of intergovernmental (federal-to-provincial) grants in Canada follows this classical structure in some respects but not in others. Currently, there are three types of basic grants in the Canadian federation.[10] Equalization payments are made to some provincial governments in recognition of their relatively weak regional economies. These cash payments, which are fully unconditional, are intended to provide the poorer provinces (with relatively small tax bases) with the

capacity to supply public services without having to rely on excessive tax rates — that is, rates that are higher than some defined average. The principle of equalization was written into the Constitution that came into effect in 1982, but the actual design of the scheme will continue to be revised periodically, as it has been in the past. It should be recognized that the equalization payments arose out of regional disparities rather than out of any fundamental imbalance of revenues between the federal and provincial levels of government.

Established Programs Financing (EPF) emerged in 1977 out of the preceding system of conditional grants in support of health care services and post-secondary education. The EPF transfers are partly in the form of cash payments and partly in tax points. While the EPF transfers continue to be made in support of health and education, only a few very general conditions are imposed on the provinces. In particular, there are no conditions which tie the amount of the transfer to the level of provincial spending in these areas. In this sense, EPFs have essentially become an unconditional form of transfer, although the federal government (at least the former Liberal government) argued that they were implicitly conditional in that the provinces had obligations regarding health and education spending. The Canada Health Act passed by Parliament in 1984 was essentially an attempt to make the EPF transfer more restrictive.

The third type of grant is the traditional cost-sharing form of conditional transfer. The largest such program is the Canada Assistance Plan, under which the federal government pays about 50 percent of the provincial social welfare costs. On occasion, agreements of this sort are signed bilaterally to finance particular projects or programs.

Indications of the magnitude of federal grants to the provincial governments are provided in Tables 3-1 to 3-3. Table 3-1 shows the magnitude of the three grant programs discussed above, as well as other current and earlier programs. In 1981–82 equalization payments amounted to $3.6 billion, EPF cash payments were $6.4 billion, and transfers paid under the Canada Assistance Plan were about $2 billion. Tables 3-2 and 3-3 illustrate the provincial distribution of equalization payments in total and in per capita terms. These payments are most important to the four Atlantic provinces in per capita terms and (by comparison with the tables used in the separate Appendix for this study) as a proportion of total provincial revenues.

It is not our purpose here to investigate these grants in detail. We reproduce these tables only to provide evidence as to the magnitude of the grants. It is clear, however, that such extensive transfer programs of necessity force a form of budgetary coordination across provinces and between the provincial and federal levels of government. This is true both in terms of overall fiscal capacity and in terms of some specific service areas, such as social welfare.

Thus, the federal structure combined with the system of intergovern-

mental grants constitutes one aspect of budgetary coordination. Budgetary coordination occurs to the extent that each jurisdiction has defined expenditure responsibilities and revenue sources. It is clear that budgetary coordination is invariably related to the structure of the federal system. However, a focus only on structure provides an incomplete picture and one that tends to be overly formalistic. Moreover, it tends to downplay the role of individual citizens and interest groups in discussions of budgeting. Later in this chapter we shall look at the importance of this aspect of coordination.

Budgetary Outcomes

A second dimension of coordination is the set of budgetary outcomes. As we shall see in Chapter 8, there is a good deal of similarity across provinces, especially in the aggregate dimensions of the expenditure side of their budgets. In part, this reflects no more than the fact that the respective electorates demand essentially the same services in many areas, including primary and secondary education, protection services, roads, and such. In part, it reflects the system of intergovernmental arrangements, including the transfer programs referred to above, tax collection agreements, and other general or bilateral arrangements that tend to impose uniformity across provinces.

It is difficult to evaluate this aspect of coordination. As mentioned earlier, the term "coordination" carries a positive connotation, that more of it is better than less. Yet how does one judge coordination as it is reflected in budgetary outcomes? One might view a high degree of output similarity across provinces as evidence of "good" coordination. Alternatively, one might interpret the same evidence as a partial negation of federalism, since a major rationale for a federal system is to allow regions the scope to do different things. When one reviews provincial spending at a more detailed level — that is, beyond the initial aggregate trends — this anticipated diversity is more apparent (as Chapter 8 shows). Similarly, one might view parallel output patterns at the federal and provincial levels in two conflicting ways. A negative interpretation, in terms of duplication, overlaps and redundancies, would suggest that more diversity would represent better coordination, in the sense that different levels of government would be doing different things appropriate to their positions in the federal system. On the other hand, situations in which two or more levels of government provide outputs in the same policy field can be viewed as instances of intergovernmental competition, which can be efficiency-promoting in a similar fashion to competition in private markets.[11]

Thus, while similar outcomes partly reflect voluntary or coerced de facto coordination, a normative interpretation of this evidence is complex at best. The history of the struggle to establish these programs and

TABLE 3-1 Federal Transfers to the Provinces and Municipalities, 1947/48 to 1981/82 ($ Millions)

	Cash Payments										
Fiscal Year	Statutory Subsidies	Equalization	Revenue Guarantee	Reciprocal Taxation	PUITTA	Municipal Grants	Hospital Insurance	Medicare	Extended Health Care	Vocational Training	University Grants
1947/48	17.1	—	—	—	2.9	—	—	—	—	—	—
1948/49	17.1	—	—	—	3.7	—	—	—	—	—	—
1949/50	25.7	—	—	—	1.4	0.4	—	—	—	4.7	—
1950/51	25.2	—	—	—	4.6	1.4	—	—	—	4.1	—
1951/52	26.6	—	—	—	3.7	2.0	—	—	—	4.2	7.0
1952/53	25.8	—	—	—	4.4	2.5	—	—	—	4.9	5.1
1953/54	24.9	—	—	—	6.8	3.4	—	—	—	4.4	5.2
1954/55	24.3	—	—	—	7.3	3.4	—	—	—	4.4	5.4
1955/56	23.4	—	—	—	7.9	7.2	—	—	—	4.3	5.5
1956/57	22.8	—	—	—	6.6	9.7	—	—	—	4.7	16.0
1957/58	22.0	136.0	—	—	7.4	17.5	—	—	—	4.8	16.6
1958/59	35.2	168.4	—	—	8.7	21.9	54.7	—	—	8.1	25.5
1959/60	28.7	208.0	—	—	4.8	22.6	150.6	—	—	8.4	26.1
1960/61	28.7	214.0	—	—	4.2	24.6	188.9	—	—	8.7	19.0
1961/62	31.5	189.7	—	—	6.4	24.9	283.2	—	—	35.9	19.4
1962/63	31.5	211.6	—	—	10.0	29.4	335.8	—	—	207.5	26.3
1963/64	31.6	202.4	—	—	9.9	31.7	391.3	—	—	136.5	26.8
1964/65	31.6	261.6	—	—	9.7	36.2	433.0	—	—	97.2	27.3
1965/66	31.6	310.0	—	—	6.4	37.1	354.5	—	—	158.9	27.7
1966/67	31.6	370.5	—	—	6.0	38.4	383.7	—	—	232.3	70.9

1967/68	31.7	547.6	—	—	6.7	40.8	435.1	—	—	193.1	—
1968/69	31.7	566.1	—	—	20.8	44.3	550.3	33.0	—	—	—
1969/70	31.8	683.3	—	—	23.6	49.5	624.9	181.0	—	—	—
1970/71	31.8	899.2	—	—	23.9	52.2	688.1	400.5	—	—	—
1971/72	33.8	1,049.6	—	—	24.3	55.4	823.5	575.5	—	—	—
1972/73	33.7	1,176.8	—	—	80.0	61.8	1,019.5	629.2	—	—	—
1973/74	33.8	1,500.1	42.6	—	25.9	62.7	1,073.2	676.2	—	—	—
1974/75	33.8	1,795.0	475.2	—	26.7	68.2	1,360.3	760.8	—	—	—
1975/76	33.8	1,956.5	460.5	—	31.8	76.0	1,754.7	793.8	—	—	—
1976/77	33.8	2,169.3	943.1	—	38.5	88.5	2,007.2	1,001.0	—	—	—
1977/78	34.0	2,521.2	600.4	46.7	45.9	117.0	1,754.0	596.4	464.5	—	—
1978/79	34.0	2,632.4	121.6	100.4	81.8	130.8	2,252.7	715.4	520.3	—	—
1979/80	34.1	3,309.6	72.1	105.3	66.3	127.6	2,385.4	814.7	576.8	—	—
1980/81	34.1	3,313.7	—	107.3	64.3	153.7	2,582.1	886.6	639.4	—	—
1981/82	35.6	3,627.2	—	131.9	78.9	165.7	2,861.0	985.0	709.1	—	—

TABLE 3-1 (cont'd)

	Cash Payments				Tax Transfers					
Fiscal Year	Post-Secondary Education	Welfare, Including CAP	Other Cash Payments	Total Cash Payments	Contracting Out	Post-Secondary Education	Established Programs Financing	Total Tax Transfers	Total Cash Plus Tax Transfers	Tax Rental Payments
1947/48	—	59.1	11.3	90.4	—	—	—	—	90.4	112.5
1948/49	—	66.8	22.0	109.6	—	—	—	—	109.6	84.4
1949/50	—	90.8	20.2	143.2	—	—	—	—	143.2	76.9
1950/51	—	103.6	41.8	180.7	—	—	—	—	180.7	94.1
1951/52	—	84.5	40.9	168.9	—	—	—	—	168.9	96.9
1952/53	—	22.2	43.9	108.7	—	—	—	—	108.7	308.6
1953/54	—	23.2	47.6	115.5	—	—	—	—	115.5	309.2
1954/55	—	24.1	54.5	123.5	—	—	—	—	123.5	327.4
1955/56	—	29.5	55.3	133.1	—	—	—	—	133.1	319.6
1956/57	—	38.4	68.0	166.2	—	—	—	—	166.2	365.9
1957/58	—	48.1	95.4	347.8	—	—	—	—	347.8	213.9
1958/59	—	74.1	117.2	513.8	—	—	—	—	513.8	249.0
1959/60	—	90.9	130.6	670.7	—	—	—	—	670.7	279.7
1960/61	—	102.8	137.4	728.3	7.7	—	—	7.7	736.0	288.7
1961/62	—	143.5	147.0	881.5	7.9	—	—	7.9	889.4	312.6
1962/63	—	159.5	139.8	1,151.4	10.7	—	—	10.7	1,162.1	25.7
1963/64	—	172.2	160.7	1,163.1	10.9	—	—	10.9	1,174.0	10.5
1964/65	—	182.4	229.3	1,308.3	11.1	—	—	11.1	1,319.4	40.9
1965/66	—	153.4	271.5	1,351.1	224.0	—	—	224.0	1,575.1	43.7
1966/67	—	189.7	317.4	1,640.5	294.9	—	—	294.9	1,935.4	54.0

1967/68	108.0	342.6	283.2	1,988.8	333.6	227.6	—	561.2	2,550.0	55.4
1968/69	276.6	382.8	324.1	2,229.7	336.9	247.0	—	583.9	2,813.6	59.7
1969/70	301.4	395.6	293.2	2,584.3	400.4	307.0	—	707.4	3,291.7	59.9
1970/71	388.3	518.7	458.9	3,461.6	473.3	341.3	—	814.6	4,276.2	63.5
1971/72	450.5	624.3	544.5	4,181.4	531.7	398.5	—	930.2	5,111.6	65.9
1972/73	481.1	677.6	275.5	4,435.2	442.3	468.9	—	911.2	5,346.4	12.4
1973/74	485.1	717.6	454.5	5,071.7	543.4	581.1	—	1,124.5	6,196.2	0.1
1974/75	503.6	976.3	488.3	6,488.2	742.5	708.2	—	1,450.7	7,938.9	3.7
1975/76	535.0	1,279.2	461.7	7,383.0	913.5	855.4	—	1,768.9	9,151.9	−1.1
1976/77	648.7	1,490.0	592.4	9,012.5	1,067.3	904.1	—	1,971.4	10,983.9	−4.9
1977/78	1,095.5	1,396.2	706.4	9,378.2	664.4	—	2,698.1	3,362.5	12,740.7	—
1978/79	1,365.4	1,523.4	757.1	10,235.3	729.9	—	2,909.6	3,639.5	13,874.8	—
1979/80	1,489.5	1,646.2	850.5	11,478.1	829.9	—	3,280.0	4,109.9	15,588.0	—
1980/81	1,621.0	1,893.8	705.2	12,001.2	905.8	—	3,674.5	4,580.3	16,581.5	—
1981/82	1,820.2	1,984.4	1,007.8	13,406.8	1,012.4	—	4,072.7	5,085.1	18,491.9	—

Source: *Federal-Provincial Fiscal Arrangements in the Eighties* (Ottawa: Department of Finance Canada, 1981).

TABLE 3-2 Percent Distribution of Equalization Entitlements, 1957/58 to 1981/82

Fiscal Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
1957/58	8.5	2.2	12.4	6.2	33.3	—	10.2	14.6	8.6	4.0	100.0
1958/59	10.5	2.9	13.7	11.8	33.0	—	7.0	10.6	7.0	3.5	100.0
1959/60	10.1	2.7	12.7	11.2	35.6	—	6.8	10.7	7.5	2.7	100.0
1960/61	10.0	2.8	12.8	11.9	34.5	—	6.6	10.8	7.6	3.0	100.0
1961/62	10.2	2.6	12.8	11.7	35.3	—	6.5	11.3	6.9	2.7	100.0
1962/63	11.8	3.4	14.3	12.6	33.8	—	6.7	11.3	6.1	—	100.0
1963/64	12.1	3.7	15.9	13.8	33.2	—	6.6	11.1	3.6	—	100.0
1964/65	11.1	3.3	15.4	13.6	39.4	—	7.7	9.0	0.5	—	100.0
1965/66	11.0	3.0	13.8	12.5	41.9	—	8.6	9.2	—	—	100.0
1966/67	11.0	2.9	13.5	12.5	42.6	—	8.6	8.9	—	—	100.0
1967/68	11.9	2.6	13.6	11.5	48.7	—	7.2	4.5	—	—	100.0
1968/69	10.3	2.3	11.9	10.2	54.6	—	7.0	3.7	—	—	100.0
1969/70	11.3	2.3	11.4	10.3	50.7	—	6.2	7.8	—	—	100.0
1970/71	11.0	2.3	11.3	10.5	47.5	—	6.2	11.2	—	—	100.0
1971/72	11.2	2.1	11.5	9.9	48.2	—	7.7	9.4	—	—	100.0
1972/73	10.6	2.4	11.6	9.6	49.9	—	6.4	9.5	—	—	100.0
1973/74	10.5	2.2	12.5	9.8	49.6	—	7.6	7.8	—	—	100.0
1974/75	10.2	2.5	13.6	9.8	53.6	—	7.3	3.0	—	—	100.0
1975/76	10.1	2.5	13.4	10.0	56.0	—	8.0	—	—	—	100.0
1976/77	11.2	2.7	14.6	11.4	52.1	—	7.5	0.5	—	—	100.0
1977/78	10.8	2.4	13.3	10.6	51.4	—	9.2	2.3	—	—	100.0
1978/79	11.1	2.5	12.9	11.4	51.0	—	10.0	1.1	—	—	100.0
1979/80	10.6	2.5	12.9	9.6	51.4	—	10.7	2.3	—	—	100.0
1980/81	11.1	2.6	13.2	11.1	50.7	—	10.1	1.2	—	—	100.0
1981/82	11.5	2.6	13.4	11.5	49.6	—	9.9	1.5	—	—	100.0

Source: Federal-Provincial Fiscal Arrangements in the Eighties (Ottawa: Department of Finance Canada, 1981).

Table 3-3 Equalization Entitlements by Province, 1957/58 to 1981/82 (dollars per capita)

Fiscal Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
1957/58	28	31	25	15	10	—	16	23	10	4	13
1958/59	47	56	37	40	13	—	15	23	11	4	17
1959/60	50	59	39	42	16	—	17	26	13	4	19
1960/61	45	54	36	41	14	—	15	24	12	4	17
1961/62	46	51	36	40	14	—	15	25	11	3	17
1962/63	51	65	39	42	13	—	15	25	9	—	22
1963/64	50	67	42	44	12	—	14	23	5	—	21
1964/65	56	74	50	54	17	—	19	23	1	—	26
1965/66	72	87	58	65	23	—	28	31	—	—	33
1966/67	79	96	63	72	26	—	32	33	—	—	37
1967/68	132	130	99	103	46	—	41	26	—	—	57
1968/69	145	148	110	115	65	—	51	28	—	—	72
1969/70	186	176	125	140	72	—	54	69	—	—	85
1970/71	188	181	127	148	70	—	56	105	—	—	89
1971/72	202	179	136	147	75	—	73	96	—	—	94
1972/73	215	223	156	161	88	—	69	112	—	—	107
1973/74	290	292	231	226	121	—	113	128	—	—	148
1974/75	323	369	286	258	150	—	124	56	—	—	169
1975/76	344	407	308	282	170	—	149	—	—	—	201
1976/77	411	460	360	343	170	—	150	11	—	—	197
1977/78	493	524	410	398	211	—	230	62	—	—	246
1978/79	565	587	446	477	236	—	282	35	—	—	277
1979/80	606	658	499	446	268	—	338	79	—	—	311
1980/81	649	708	527	536	273	—	333	41	—	—	321
1981/82	702	756	559	578	281	—	345	56	—	—	338

Source: *Federal-Provincial Fiscal Arrangements in the Eighties* (Ottawa: Department of Finance Canada, 1981).

the accounts of their subsequent evolution reveal the normative diversity of the debate involved in the nature and the timing of these initiatives. The history of medical care, manpower training and education, and welfare expenditures, as well as the 1980s intergovernmental struggle over energy rents, are not uniform tales of federal domination.[12] Rather, they reflect different expressions of political power between and among the eleven governments, while also interacting with different configurations of private political power.

Budgetary Processes

The third dimension of budgetary coordination involves budgetary processes. Setting the substance of budgets aside, what is the cost of arriving at these outputs? This aspect of coordination involves, in the terminology of economics, the "transaction costs" of achieving these policy outcomes.

We can conceive of three distinct types of transaction costs.[13] First are the intergovernmental administrative costs. These include the resources devoted to negotiating policies among the actors within any one government and the costs of setting up and operating the apparatus to deliver the policy. The second type of transaction costs are the resources devoted to intergovernmental issues. These include the costs of negotiating agreements or understandings between the two levels of government and among jurisdictions at the provincial level, and the costs of monitoring and administering these arrangements. Third are the costs involving the private sector. In this context, "private sector" is taken to mean all nongovernmental actors with interests in the budgetary outcomes. Included in these costs are communications with governments, "signalling" on the part of individuals, as well as the lobbying activities of interest groups. Both may occur in public discussion or in private representations. Adjustments made in response to budget measures (e.g., tax shifting) and, in more extreme cases, mobility (changing jurisdictions) are also elements of private sector costs.[14]

Often, discussions of the cost of achieving budgetary coordination focus only on the second of these three components — that is, only on the direct intergovernmental costs. Highly visible and contentious intergovernmental negotiations are a particular focal point. However, as we have just noted, other dimensions of cost exist, and these must be considered as well. For example, one can conceive of trade-offs between intergovernmental and intragovernmental costs. This would be particularly true of alternative arrangements to organize and deliver services in areas of joint responsibility.

More broadly still, one can define transaction costs as the sum of these three components. A well coordinated system could be defined as one in which this sum was minimized. Thus, for example, a tax regime on

which federal and provincial governments readily agreed (low intergovernmental costs) could still be an instance of poor coordination in this context if it involved large excess burdens on taxpayers (high private sector costs).

At this point it should be made clear that our concern is not with the total costs of coordinating activities. Governments, individuals and interest groups become involved in these activities because they gain benefits from doing so. If the stakes (i.e., the potential gains from a particular budgetary action) are high, a participant might find it worth while to invest a lot of resources in lobbying or negotiating in order to alter the final outcome favourably. Total process or transaction costs might be high in this instance, but it would be wrong to conclude that there would be coordination problems. Instead, it might very well be the case that the system operated ideally because it provided the opportunity for the affected (public and private) interests to participate fully in the determination of the final outcome. Moreover, it could well be to the advantage of any interest group to have available more than one "pressure" point — that is, to have more than one forum to which it can present its case. Accordingly, successful process coordination should not be seen in terms of a neat channelling of private sector representations to a particular government or governmental unit.

Thus, it is important to recognize that federal budgetary coordination can be highly developed and that the total transaction cost associated with the resolution of any particular issue can still be high. If the interests to be reconciled are sufficiently divergent, and the potential gains (or losses) to be shared are sufficiently large, the total costs of reaching a settlement may be high even if the process costs are minimized. Coordination is not a means of reducing the costs of genuine conflicts of interest that are part and parcel of a federation such as Canada's. Thus, one should not view contentious and difficult federal-provincial disputes as evidence of a poorly operating federal system, at least in the present context. Examples include the Ottawa-Alberta energy agreement (and the long discussions and political brinkmanship leading up to it), the Ottawa-Newfoundland dispute over offshore oil reserves, Established Programs Financing, and medicare.

When coordination occurs it can be the product of elaborate negotiation, brute political power, or mutual anticipation; or it can result from sensible adaptation by one jurisdiction, which adopts and amends the policy experiments of another. The medicare debate of the 1960s is now fondly remembered as the product of Pearsonian cooperative federalism; yet at the time it was the object of bitter dispute. The intensive energy revenue and expenditure conflicts of the mid to late 1970s and early 1980s were preceded by virtually twenty years of relative intergovernmental tranquillity.

The notion of the unit cost of coordinating activities (negotiating,

lobbying, monitoring agreements, and so on) is abstract, and it is not at all obvious how one would define the concept in clear operational terms. Nevertheless, we can still discuss the concept in terms of factors that relate to transaction costs. In particular, there are certain structures and institutional arrangements that are potentially important for improved coordination (lower per-unit transaction costs). One key example concerns arrangements to promote flows of information.

Given the interjurisdictional leakages, the areas of joint responsibility, and the taxation-voter relationships discussed at the outset of this chapter, it is highly desirable that information flows among jurisdictions should be regular and extensive. The term "information flows" includes factual data, forecasts and the models upon which the forecasts are based. To some extent, this sharing of budgetary data among governments already occurs, although the forecasting models are jealously guarded. However, one of the components of the transaction costs, those borne by the private sector, are virtually ignored. Typically, only sketchy data on current and projected economic performance and fiscal status are released to the public, usually as part of the documentation accompanying a budget speech. There is thus an area for improved information flows between governments as a group and the private sector. Pre-budget consultations obviously occur. However, they are often held in private and they occur without the appearing group having the advantage of knowing the government's view of its fiscal position. Such knowledge would enable the group to present ideas and suggestions which the government would view as "realistic" in the circumstances.

Another aspect of information flows is consultation among governments so that each is aware of the plans of the others. The objective is essentially to reduce the amount of uncertainty facing a government when it is formulating its budgetary plans. It is unrealistic to expect this process to occur in public. Even when done in secrecy, the amount of information of this type that governments are willing to exchange is severely limited. However, it is important to recognize that the costs that can be imposed by a failure to consult in this fashion may be extremely high. The personal income tax (PIT) is a case in point. The federal government collects PIT payments for all provinces except Quebec. The provinces, as part of the tax collection agreement, have ceded to Ottawa the power to define their common tax base. Changes in the base that the federal minister of finance announces in a budget speech may seriously affect provincial revenues with virtually no warning. While the provinces may recoup their losses in some future fiscal negotiations, the immediate impact may be severe. Provincial governments may be forced to adjust by changing other taxes or expenditures, or both.[15] While no government would be prepared to consult on all its policy options, perhaps there is a limited list of policy measures on which the federal government

would agree to prior consultations. Alternatively, one might consider the option of allowing for an adjustment period before announced measures (such as changes in the tax base) become effective.

One should also link the issue of information flows to the imbalances stressed in Chapters 1 and 2 in the tax versus expenditure and public versus private realms of parliamentary scrutiny. In this sense, transaction costs are linked to democratic costs, and reforms must be linked to deal with all these dimensions of the budget process. We shall return to these federal-provincial and public-private informational reform arenas in later chapters.

Conclusions

We have noted that three key linkages in a federal system carry budgetary implications. They are the open, small regional economies; the common expenditure policy areas; and the ultimate reliance on the same tax bases. Each of these linkages affects our three complementary dimensions of budgetary coordination — namely structure, outcomes and process.

The review of the key linkages inherent in a federal system, and the dimensions of coordination, illustrate that budgetary coordination is not a simple phenomenon. Coordination, in the sense of some general level of movement by both jurisdictions in the same direction, has obviously occurred, but it has occurred in diverse ways. The subtlety of the coordination issue is important in dealing with the larger goal-setting, restraint and budget reform issues on which we focus in this study. Existing literature tells us something of this subtlety but not all of it. This is why, especially in Part III, we review provincial budgeting in a more extended way. Only by looking closely at such issues as electoral cycle spending, developments in accountability regimes, and the extent of Keynesian countercyclical policy practised by the provinces can one begin to see what budgetary coordination means and how it is linked to the budget as a goal-setting occasion.

PART II

Federal Budgeting

Chapter 4

Federal Expenditure Budgeting

With the basic conceptual issues set out in Part I as background, we now proceed to an examination of federal budgeting, beginning with expenditure budgeting.[1] One major difference between federal and provincial budgeting is the degree to which federal budgeting exhibits a more distinct separation of the revenue and expenditure processes in their public manifestations as political events. This is symbolized in the organization of the chapters in Parts II and III. The federal dynamics are treated in two chapters, one on expenditure and one on revenue budgeting. By contrast, the provincial dynamics are examined in a way that reflects the more integrated status of provincial budgeting systems.

In separating the federal budgeting system into its expenditure and revenue components as public political events, we do not wish to imply that these components are wholly separate in the internal process within the executive structure of the federal government. In the first section of this chapter we describe the formal budget cycle to show the points of integration. Moreover, some degree of separation is necessary, and it is present at both levels of government. It is the degree of separation that we focus on. After describing the formal federal budgeting process, we examine expenditure trends since 1960 and the goals these trends reflect. This includes a more focussed look at priorities since the late 1970s in four of the main policy fields under which the current federal process is organized for budgetary purposes. These fields are grouped in the federal envelope system and include social developments, economic and regional development, energy, and defence and external affairs. In the final section we offer concluding observations on federal expenditure budgeting in relation to the key themes set out in Part I.

The Formal Budget Cycle

The formal federal budget cycle, as it has functioned in the early 1980s, is characterized by the components and stages set out in Table 4-1. It operates as part of the Policy and Expenditure Management System (PEMS), or the envelope system. Overall priorities are set by the cabinet committee on priorities and planning, which is chaired by the prime minister. Obviously, these priorities are based on the broadest kind of political and economic calculus, but they are influenced specifically by the development of a fiscal framework that is based primarily on a fiscal outlook paper presented by the minister of finance. Priorities are also influenced by proposals emanating from the cabinet committees whose ministers are responsible for the management of the main envelopes of expenditure as described below. This includes the preparation by departments of five-year strategic overview documents and five-year operational plans. On the revenue side, the overall process leads eventually to the preparation and presentation of the budget and the budget speech. On the expenditure side, the process leads to the preparation of the expenditure plan, including a plan for spending four years beyond the coming fiscal year. This overall plan is published with the budget speech. The proposed expenditures for the coming fiscal year are presented, normally in February, as *The Estimates to Parliament*. The estimates are debated and scrutinized in the several standing committees of the House of Commons. All estimates, if they have not already been approved, are automatically approved by May 30. The committees of the House are controlled by the governing party. The partial exception to this is the public accounts committee, which is chaired by an opposition member.

Several basic kinds of information and documentation should be noted about the current system.[2] First, the public information on spending consists of the estimates, or blue book, broken into three parts: the overall expenditure plan, the annual estimates, and detailed data on individual departments. Parliament is also aided by the annual report of the auditor general of Canada. An officer of Parliament, the auditor general works mainly for the public accounts committee, but his reports, particularly recent comprehensive audits, are available to other committees as well. The auditor general cannot actually or directly evaluate public expenditure programs or question public policy. His mandate is to ensure that money is spent as Parliament intended and to see that there has been due regard for economy and efficiency; in short, value for money. The auditor general therefore assesses whether the appropriate "systems" are in place to ensure that value for money is achieved. There is, however, no clear dichotomy between policy and administration, and thus the auditor's work can indirectly imply criticism of policy or can bring policy into disrepute, even though only one value, efficiency, is brought to bear through such studies. On the revenue tax side, the main

TABLE 4-1 A Simplified View of the Overall Internal Federal Resource Allocation System

	Fiscal Framework and Revenue Budget	Overall Priorities	Expenditure Budget
Components	Fiscal stimulus or restraint; short versus medium term, based on judgment about state of the economy	• overall social/ economic priorities and political judgment • short-term responsiveness versus long-term "planning"	"A" budget (ongoing expenditures) "B" budget (new initiatives) "X" budget (cancellation or reduction) Statutory and controlled versus discretionary spending
Primary units involved	Department of Finance	• Priorities and planning committee of cabinet • PCO, PMO • Cabinet committees and secretariats	• Cabinet committees • Tresury Board • Cabinet committee secretariats
Kinds of documents or policy occasions	Fiscal outlook paper Medium-term track documents Budget speeches	Throne speeches, budget speeches, internal "priorities" documents	• Estimates • 5-year strategic overview documents • Multiyear operational plan documents

Source: Bruce Doern and Richard W. Phidd, *Canadian Public Policy* (Toronto: Methuen, 1983), p. 260.

public documents are the budget speech itself and the budget papers. The latter have included, especially in recent years, an annual tax expenditure account (published twice and then discontinued) and other papers seeking consultative input on various possible future budget proposals. It is useful to note the type of internal information that is not published. The departmental strategic overviews are not made public, nor are the fiscal assumptions and projections on which the budget is based.

This formal system, which we have described with somewhat perilous brevity, is a product of several kinds of dissatisfaction with the system that preceded it in the 1970s. As the analysis in Part I suggests, any budgetary decision system is inextricably bound up in the dilemmas and partial contradictory pressures of cabinet government. Thus, in the

1970s, following the Trudeau government's initial experimentation with more rational procedures and with expanded central agencies, three concerns arose with direct budgetary implications. The first was that cabinet ministers in the early and mid-1970s were making policy decisions that were insufficiently linked to the financial implications and costs. Cabinet committees could suggest policies, but only the Treasury Board and the minister of finance had to worry about costs. In a cabinet of about thirty-five ministers, this meant that barely two ministers said no and that the rest said yes to expenditure proposals. The envelope system adopted in 1979 by the Clark government was intended to produce a better matching. Each committee was given a "reserve" for new initiatives, and the implication was that if new initiatives were presented, ministers on the committee either had to use the reserve until it ran out or had to create more financial room by eliminating or reducing existing programs.

A second concern was that the system in place gave too much influence to public servants over ministers. This situation arose from the view that ministers were burdened with so much detail and dispute over the "facts" that they could not focus on the larger policy and political questions. Thus, the Policy and Expenditure Management system was accompanied by a system of so-called mirror committees of deputy ministers and by a system of briefing notes, which were supposed to allow ministers the time to focus on policy.[3] A closely related third concern was the need to provide a longer time frame for decisions. Thus, the cabinet committee responsible for each envelope of funds was to develop longer-term plans. Moreover, each committee was given projected expenditure ceilings, in the hope that it would be more aware of how its current decisions would affect and/or "draw" on future money reserves.

At the parliamentary level, the concerns for reform were expressed more in the political coinage of accountability and value for money. The auditor general advocated the need for more program evaluation and succeeded in persuading the government to establish the Office of the Comptroller General. This office has acted as a catalyst to ensure that departments conduct a regular cycle of evaluations.[4] These evaluations were supposed to be made public, but few of them have been.

Four final points about the formal system deserve emphasis before we look at the expenditure dynamics. First, a view emerged over the 1970s that the Department of Finance had lost some of its earlier pre-eminence and power. Relative to the 1950s and 1960s, it had less direct control over expenditure. As the "economic manager" of the government, it faced a larger phalanx of "economic" ministers who were anxious to spend and to promote their views of economic development.[5] The new system was partially intended to help restore the power of the Department of

Finance. A second point to note is the way the taxation instrument has been handled in the envelope system. In theory, envelopes contain all tax expenditures in that if a cabinet committee wants to propose a new tax break, the committee will be charged for it as if it were an expenditure. In theory, if the committee proposes the closing of a tax break, it ought to reap the revenue gains. This notion of tax expenditures was based on the concept that tax and direct expenditures are substitutes for each other and thus that the envelope system should not bias choices. In fact, the treatment of tax policy does not proceed this way. This is because the Department of Finance zealously guards its power to make tax policy.

The third point to note, especially when compared with the situation in many provinces, is that the prime minister is not a persistent budgetary participant. By this we mean that Prime Minister Trudeau, for example, though he clearly was the centre of power on those priorities that were absolutely central to the government's fate and mandate, did not participate in any detailed way in the budgetary process. In part, this arm's-length approach is a function of the sheer scale of federal government activity and of the demands on prime ministerial time, but it is also partly a product of personal choice.

The final point to note is the role of the Bank of Canada. The Bank is not usually on the list of key budgeting institutions, but it is front and centre when one thinks of macroeconomic policy institutions. While this monograph does not encompass monetary policy per se, it would be a mistake to leave the Bank of Canada entirely out of the contemporary politics of budgeting.[6] Since the cost of servicing the public debt has in recent years been the fastest element of growth in public expenditure, and since interest rates are "managed" by the Bank of Canada (lock-step with the U.S. Federal Reserve), the Bank is a major budgetary agency. The minister of finance has formal responsibility for monetary policy, but he exercises the policy under a mode of accountability that is very different from that which accompanies his relationship with the Department of Finance and its deputy minister. In the case of the Bank of Canada, where disagreement arises as to basic policy, the minister must issue a public directive. This gives the governor of the Bank extraordinary leverage over his nominal superior. The independence of the Bank arises ultimately out of a historically entrenched view that elected politicians should not wholly be trusted with the money supply. At the same time, however, the minister of finance and his deputy are completely trustworthy when it comes to billions of dollars in tax decisions. Indeed, this process is shrouded in the veils of official norms that preserve budgetary secrecy. The contrasts in nominal and real accountability between the fairly open expenditure process, the shrouded tax process, and the mysterious monetary process are central realities of

modern budgeting. We shall return to the issue of their validity in the modern budget process after we have explored budgetary dynamics in greater detail, including revenue budgeting.

Expenditure Trends and Goal Setting

Data on expenditure trends obviously tell us a great deal about goals and political power, but the trends themselves do not tell us everything about goal setting. To give an understanding of federal expenditure dynamics, we present below three kinds or levels of analysis of expenditure output. The first gives an overall portrait of the 1960s to 1980s. The second looks at the mid-1970s to mid-1980s somewhat more closely. The final portrait focusses mainly on the early 1980s and delves briefly into four functional areas of spending: social policy, economic development, energy policy, and defence.

General Trends and the Masking of Priorities

Table 4-2 provides a detailed functional breakdown of federal expenditures over the 23-year period from 1959/60 to 1981/82. In 1981/82 the largest proportion was accounted for by social service programs. Debt servicing costs and programs on agriculture, industry, trade and tourism were the next largest categories. When looked at in terms of constant dollars, social service spending grew in relative terms during the 1970s but then fell back slightly. Agriculture, industry, trade, and tourism expenditures grew over most of the period shown, but not at a uniform rate. Debt servicing charges declined in relative terms until about 1974 but after about 1978 these expenditures rose at a fairly rapid rate. The share of total spending accounted for by national defence declined steadily over the entire period. A further item of some interest is the cost of general government overhead. This measure of the financial cost of the federal "bureaucracy" shows that it increased only slightly over the entire period and, in fact, declined slightly in the last decade.[7]

These data convey some of the realities of the goals and priorities of the federal government since 1960. They show that social welfare and health policies were priorities in the mid to late 1960s, that defence policy was accorded less emphasis, and that industrial and economic development policy was never unimportant, though it occupied a somewhat more episodic place on the priority list. Other priorities also emerge in these data, even though they do not produce big numbers. For instance, the "quality of life" issues involving environmental concerns creep into the data in the early 1970s and then fall to about half their 1974 level in per capita constant dollars.

In other respects, these data mask priorities or reveal unintended "priorities." This becomes more apparent when one looks, illustratively

at least, more closely at the last decade shown and then at the last five years. In one sense, the growth of debt servicing costs in the last decade was hardly an intended priority outcome. On the other hand, it partially was, since it was a product of decisions to maintain social programs, energy compensation schemes, and automatic stabilization programs, despite criticisms that the deficit was alarmingly high. It also reflected decisions on taxation, interest rates, and exchange-rate policy.

The masking of priorities can occur in several ways. The health care priority was enunciated in the mid-1960s, but the greatest expenditure impact was in the early 1970s as the program matured.[8] This delayed effect was also present in other program areas of no small magnitude. For example, the decision to establish the Oil Import Compensation Program as a national priority to protect oil consumers in Eastern Canada (who were dependent on imported oil) took place in 1974; but not until 1979 did the expenditures balloon overnight from $1 billion to over $4 billion, virtually doubling the annual deficit.[9]

In addition to masking by delayed effect, priorities are masked by the ways in which the data are assembled and/or interpreted. The data on defence could be taken at face value and regarded in defence policy terms only. Alternatively, the size and composition of the decline in defence spending, when linked to industrial procurement, could easily lead to the view that overall industrial and economic development spending declined in real terms, relative to what it would have been with higher defence spending. This is because defence spending has significant capital and weapons procurement dimensions. There is also a significant regional distributive impact from defence personnel spending, in that defence establishments are dispersed across the country (particularly in Quebec and Atlantic Canada) far more than the regular bureaucracy is.[10]

Even more masking occurs because of the ways in which priorities may be expressed in other policy instruments and therefore in data that are not captured here. We stress this as an issue for the overall study vis-à-vis regulation and public enterprise, which this monograph does not cover in any complete way. For example, the previously cited data on the costs of general government provide only one view of the world when they suggest that government bureaucracy declined in the 1970s. In fact, political criticism of bureaucracy and its efficiency was never greater than in the mid to late 1970s and the early 1980s.[11] In this debate, either the figure cited above went unnoticed or the term "bureaucracy" and the issue of the costs of government were in reality directed at other instruments, such as the growth of regulation, the emergence of particular Crown corporations, or the preferred use of instruments such as loan guarantees (which do not appear in any recognizable trend data, since they reflect potential future charges on the public purse or hidden interest subsidies).[12]

TABLE 4-2 Federal Government Expenditure Functions, 1960–82

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
General Government											
per capita (current $)	14	15	16	16	16	14	17	21	23	33	35
per capita (constant $)	26	26	26	26	25	21	25	29	29	40	39
% change (constant $)		1.9	4.8	−1.5	−1.2	−14	20.7	18.7	3.5	37.0	−1.2
% of total expenditure	4.0	4.0	4.0	3.9	3.9	3.3	3.9	4.3	4.1	5.4	5.2
Protection of Persons and Property											
per capita (current $)	4	4	5	5	5	7	8	9	11	11	13
per capita (constant $)	8	8	8	8	8	11	12	13	14	14	14
% change (constant $)		0.9	7.2	5.5	−0.3	33.6	12.4	9.0	8.3	21.3	6.6
% of total expenditure	1.2	1.2	1.2	1.3	1.3	1.7	1.9	1.9	1.9	1.9	1.9
Defence Spending											
per capita (current $)	88	86	90	86	91	81	80	83	88	87	86
per capita (constant $)	158	149	152	141	143	123	115	113	111	104	95
% change (constant $)		−4.0	4.1	−5.4	3.1	−12	−4.5	−0.4	0.2	−4.8	−6.7
% of total expenditure	24.4	23.3	23.0	21.8	22.2	19.1	17.9	16.6	15.6	14.2	12.9
Transportation and Communications											
per capita (current $)	22	21	24	23	24	28	30	33	32	29	28
per capita (constant $)	39	36	40	38	37	42	44	45	41	34	31
% change (constant $)		−3.3	10.7	−1.3	−0.7	13.9	7.1	5.1	−8.2	−15.0	−7.3
% of total expenditure	6.0	5.7	6.0	5.9	5.8	6.5	6.8	6.7	5.7	4.7	4.2
Health Expenditures											
per capita (current $)	13	15	20	23	26	28	25	26	31	36	49
per capita (constant $)	23	26	34	38	41	43	36	35	39	43	55
% change (constant $)		13.8	32.7	13.6	10.7	6.0	−15.0	−0.2	12.7	14.0	27.6
% of total expenditure	3.6	4.1	5.1	5.8	6.4	6.6	5.5	5.1	5.4	5.9	7.4

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
General Government												
per capita (current $)	47	51	58	63	76	83	100	112	120	123	145	165
per capita (constant $)	49	51	53	63	57	52	55	57	56	53	55	55
% change (constant $)	27.8	4.9	5.7	2.2	7.4	−7.5	7.5	6.0	−0.1	−5.0	5.1	1.8
% of total expenditure	6.3	6.1	6.0	5.7	5.5	5.1	5.6	5.7	5.6	5.1	5.1	5.1
Protection of Persons and Property												
per capita (current $)	15	16	18	22	27	34	39	48	49	52	60	68
per capita (constant $)	15	16	16	19	20	21	22	24	23	22	23	23
% of change (constant $)	7.1	3.2	5.7	15.2	8.7	7.4	4.3	12.9	−3.1	−2.4	2.3	2.0
% of total expenditure	2.0	1.9	1.9	2.0	1.9	2.1	2.2	2.4	2.3	2.2	2.1	2.1
Defence Spending												
per capita (current $)	81	87	88	96	102	116	140	157	174	185	205	240
per capita (constant $)	85	85	80	82	76	72	77	79	81	79	78	80
% change (constant $)	−9.9	1.6	−4.7	3.3	−6.4	−2.9	7.7	4.2	3.6	−1.2	−1.2	4.5
% of total expenditure	11.0	10.3	9.1	8.7	7.4	7.1	7.8	7.9	8.1	7.7	7.3	7.4
Transportation and Communications												
per capita (current $)	48	56	63	80	98	109	120	127	139	138	177	171
per capita (constant $)	51	55	58	68	73	68	66	64	65	59	67	57
% change (constant $)	64.5	9.5	5.9	19.9	7.9	−4.6	−2.7	−0.7	2.2	−8.0	14.4	−14.0
% of total expenditure	6.6	6.6	6.5	7.3	7.1	6.7	6.7	6.4	6.5	5.7	6.3	5.3
Health Expenditures												
per capita (current $)	61	74	82	89	103	123	144	134	164	177	183	195
per capita (constant $)	64	73	75	75	76	76	79	68	77	76	69	65
% change (constant $)	19.6	14.8	4.1	1.5	2.1	2.3	4.3	−13.0	13.7	0.1	−7.8	−4.7
% of total expenditure	8.3	8.8	8.6	8.0	7.4	7.5	8.0	6.8	7.6	7.3	6.5	6.0

TABLE 4-2 (cont'd)

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Labour Employment and Immigration											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											
Housing											
per capita (current $)	0	0	0	0	0	0	1	1	1	1	2
per capita (constant $)	0	0	0	0	0	1	1	1	1	2	2
% change (constant $)		70.4	32.5	2.5	4.7	97.4	42.4	−19	16.8	82.9	17.0
% of total expenditure	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.3
Development of Regions and Localities											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											
Foreign Affairs											
per capita (current $)	5	6	5	4	5	7	8	13	11	10	12
per capita (constant $)	10	10	8	7	8	11	12	17	14	12	13
% change (constant $)		0.8	−15.0	−11.0	20.5	31.7	10.7	49.0	−19.0	−8.6	10.6
% of total expenditure	1.5	1.5	1.2	1.1	1.3	1.7	1.8	2.5	1.9	1.7	1.8
Research of Enterprises											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Labour Employment and Immigration												
per capita (current $)	7	13	22	15	15	20	20	21	25	30	32	36
per capita (constant $)	8	13	21	13	11	12	11	11	11	13	12	12
% change (constant $)		71.8	67.7	−37.0	−9.7	8.9	−11.0	2.4	7.0	11.6	−2.6	0.3
% of total expenditure	1.0	1.6	2.3	1.4	1.1	1.2	1.1	1.1	1.1	1.2	1.1	1.1
Housing												
per capita (current $)	2	3	5	6	9	15	21	22	29	34	42	45
per capita (constant $)	2	3	4	5	7	9	12	11	13	15	16	15
% change (constant $)	2.4	61.0	31.7	28.8	33.7	34.3	26.6	−1.9	20.5	11.1	8.0	−4.3
% of total expenditure	0.3	0.4	0.5	0.6	0.7	0.9	1.2	1.1	1.3	1.4	1.5	1.4
Development of Regions and Localities												
per capita (current $)	3	7	6	7	7	6	5	5	5	4	7	6
per capita (constant $)	3	6	6	6	5	4	3	3	2	2	3	2
% change (constant $)		130.0	−7.7	−4.1	−9.0	−21.0	−29.0	−6.3	−5.3	−21.0	40.5	−27.0
% of total expenditure	0.4	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Foreign Affairs												
per capita (current $)	14	14	18	20	26	33	35	48	41	44	45	52
per capita (constant $)	14	14	16	17	19	21	19	24	19	19	17	17
% change (constant $)	8.9	0.9	15.5	6.0	15.4	8.1	−6.4	29.0	−21.0	0.0	−8.8	3.5
% of total expenditure	1.8	1.7	1.8	1.8	1.9	2.0	1.9	2.4	1.9	1.8	1.6	1.6
Research of Enterprises												
per capita (current $)	18	15	13	14	15	22	18	31	30	38	45	44
per capita (constant $)	19	15	12	12	11	14	10	16	14	16	17	13
% change (constant $)		−19.0	−22.0	1.0	−6.2	30.2	−27.0	60.6	−12.0	19.3	4.7	−11.0
% of total expenditure	2.4	1.8	1.3	1.2	1.1	1.4	1.0	1.6	1.4	1.6	1.6	1.4

TABLE 4-2 (cont'd)

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Equalization Payments											
per capita (current $)	26	27	26	11	10	14	18	21	27	31	35
per capita (constant $)	47	47	44	18	15	22	26	29	35	37	38
% change (constant $)		0.6	−3.3	−59.0	−14.0	47.1	20.4	14.0	21.6	8.8	5.4
% of total expenditure	7.3	7.3	6.7	2.8	2.4	3.4	4.0	4.3	4.9	5.1	5.2
Total General Purpose Transfers											
per capita (current $)	31	32	31	17	15	20	22	28	39	45	48
per capita (constant $)	56	55	52	27	24	31	32	38	49	54	53
% change (constant $)		0.3	−2.4	−47.0	−9.9	30.4	4.1	23.2	31.5	10.7	−0.4
% of total expenditure	8.6	8.6	7.9	4.2	3.8	4.8	4.9	5.6	6.9	7.3	7.1
Social Welfare Transfers											
per capita (current $)	89	91	97	102	106	111	115	124	146	158	171
per capita (constant $)	159	157	162	168	166	168	166	168	185	190	189
% change (constant $)		0.8	5.2	5.5	0.8	3.3	0.5	3.4	11.9	4.0	1.1
% of total expenditure	24.6	24.7	24.5	25.9	25.9	26.1	25.9	24.8	26.0	25.9	25.5
Education Transfers											
per capita (current $)	4	4	5	15	11	11	15	22	22	29	30
per capita (constant $)	7	6	9	24	17	17	22	29	28	34	34
% change (constant $)		−10.0	40.7	187.0	−28.0	1.1	30.5	36.8	−1.9	23.7	−0.4
% of total expenditure	1.1	1.0	1.3	3.7	2.7	2.6	3.4	4.3	4.0	4.7	4.5
Total Transfers											
per capita (current $)								87	105	118	134
per capita (constant $)								118	133	141	148
% change (constant $)									15.3	7.4	6.8
% of total expenditure								17.3	18.7	19.3	20.0

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Equalization Payments												
per capita (current $)	44	47	52	66	102	85	91	102	111	140	149	184
per capita (constant $)	46	46	48	57	76	53	50	52	52	60	56	61
% change (constant $)	20.6	3.1	4.0	19.7	35.6	−29.0	−4.7	5.4	1.4	16.4	−4.7	10.2
% of total expenditure	5.9	5.6	5.4	6.0	7.4	5.2	5.1	5.2	5.2	5.8	5.3	5.7
Total General Purpose Transfers												
per capita (current $)	62	72	75	85	121	118	148	149	143	172	183	218
per capita (constant $)	65	70	69	73	89	74	81	76	67	74	69	73
% change (constant $)	25.1	9.8	−1.0	6.7	24.3	−16.0	11.2	−5.7	−11.0	11.3	−5.2	6.9
% of total expenditure	8.4	8.5	7.8	7.8	8.7	7.3	8.3	7.6	6.6	7.1	6.5	6.7
Social Welfare Transfers												
per capita (current $)	211	251	315	368	451	546	610	672	726	770	895	996
per capita (constant $)	221	247	288	313	333	341	334	340	339	330	338	332
% change (constant $)	18.8	12.8	18.1	10.0	7.8	3.8	−0.5	2.9	0.9	−1.8	3.7	−0.4
% of total expenditure	28.6	29.7	32.8	33.4	32.6	33.6	34.0	34.0	33.7	32.0	31.7	30.8
Education Transfers												
per capita (current $)	41	40	39	42	46	52	60	83	95	100	105	110
per capita (constant $)	43	39	36	36	34	32	33	42	44	43	39	37
% change (constant $)	29.5	−7.3	−8.5	1.0	−1.9	−4.3	2.3	29.9	6.8	−2.0	−7.1	−6.0
% of total expenditure	5.5	4.7	4.1	3.8	3.4	3.2	3.3	4.2	4.4	4.2	3.7	3.4
Total Transfers												
per capita (current $)	180	204	213	241	300	342	418	426	475	519	545	604
per capita (constant $)	188	200	195	206	222	213	229	215	222	222	206	201
% change (constant $)	28.8	7.5	−1.2	6.5	9.4	−2.3	8.8	−4.9	4.1	1.1	−6.2	−1.0
% of total expenditure	24.3	24.1	22.2	21.9	21.7	21.1	23.3	21.6	22.1	21.5	19.3	18.7

TABLE 4-2 (cont'd)

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Agriculture, Industry, Trade & Tourism											
per capita (current $)	17	21	23	21	25	24	29	37	45	44	55
per capita (constant $)	31	37	39	35	38	36	41	51	57	53	60
% change (constant $)		22.0	7.9	−9.8	13.1	−3.8	15.9	24.6	15.1	−6.6	16.4
% of total expenditure	4.8	5.8	5.9	5.4	6.0	5.6	6.4	7.4	8.0	7.2	8.1
Environment											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											
Recreation											
per capita (current $)	1	1	2	2	2	2	3	4	5	4	5
per capita (constant $)	3	3	3	3	3	4	4	6	7	5	5
% change (constant $)		−0.5	16.7	−1.1	2.0	25.2	22.6	41.1	17.4	25.0	11.0
% of total expenditure	0.4	0.4	0.4	0.4	0.4	0.5	0.7	0.9	1.0	0.7	0.7
Transfers to Own Enterprises											
per capita (current $)	9	8	9	8	8	9	8	9	11	11	12
per capita (constant $)	16	14	16	14	12	14	12	12	14	13	13
% change (constant $)		−6.7	11.1	−11.0	−7.8	17.5	−15.0	2.9	14.2	−2.4	1.0
% of total expenditure	2.4	2.3	2.4	2.1	1.0	2.2	1.9	1.8	1.9	1.8	1.7
Servicing of the Public Debt											
per capita (current $)	45	45	46	50	53	55	57	60	64	72	82
per capita (constant $)	80	77	77	81	83	83	82	81	81	86	91
% change (constant $)		−1.7	2.0	7.2	3.6	2.1	0.5	0.8	2.5	7.4	7.2
% of total expenditure	12.4	12.1	11.7	12.5	12.9	12.8	12.7	11.9	11.4	11.8	12.2

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Agriculture, Industry, Trade & Tourism												
per capita (current $)	51	54	62	78	137	172	152	152	144	221	301	350
per capita (constant $)	54	53	57	66	102	107	83	77	67	95	114	117
% change (constant $)	−9.7	0.7	7.2	18.3	55.4	7.2	−21.0	−6.3	−11.0	42.0	21.5	3.7
% of total expenditure	6.9	6.4	6.4	7.1	9.9	10.6	8.5	7.7	6.7	9.2	10.7	10.8
Environment												
per capita (current $)	0	1	5	11	12	13	13	14	17	15	14	14
per capita (constant $)	0	1	4	10	9	8	7	7	8	6	5	5
% change (constant $)		144	311.0	129.0	−4.8	−9.1	−7.0	−5.0	18.2	−19.0	−16.0	−9.8
% of total expenditure	0.1	0.1	0.5	1.0	0.9	0.8	0.7	0.7	0.8	0.6	0.5	0.4
Recreation												
per capita (current $)	5	8	10	11	12	15	15	18	20	19	22	26
per capita (constant $)	6	7	9	10	9	10	8	9	9	8	8	9
% change (constant $)	4.1	35.6	22.1	9.3	−5.8	6.5	−10.0	11.0	1.7	−10.0	3.8	2.0
% of total expenditure	0.7	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Transfers to Own Enterprises												
per capita (current $)	12	13	13	16	21	23	24	29	33	41	59	61
per capita (constant $)	13	12	12	14	16	14	13	14	15	17	22	20
% change (constant $)	−1.4	−0.2	0.7	14.3	15.4	−8.4	−6.4	10.5	6.2	15.9	30.1	−8.1
% of total expenditure	1.6	1.5	1.4	1.5	1.6	1.4	1.3	1.4	1.5	1.7	2.1	1.9
Servicing of the Public Debt												
per capita (current $)	58	66	69	79	102	125	128	152	199	243	304	440
per capita (constant $)	61	65	63	67	75	78	70	77	93	104	115	147
% change (constant $)	−32	8.1	−1.5	7.4	13.6	5.3	−8.8	10.7	22.9	12.5	12.0	29.4
% of total expenditure	7.8	7.8	7.2	7.1	7.4	7.7	7.1	7.7	9.3	10.1	10.8	13.6

TABLE 4-2 (cont'd)

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Miscellaneous Expenditures											
per capita (current $)	18	19	21	23	22	26	27	31	33	40	42
per capita (constant $)	32	33	34	37	35	40	39	42	42	48	47
% change (constant $)		7.3	5.2	10.4	−5.0	17.0	0.2	7.6	3.0	16.8	−1.9
% of total expenditure	4.9	5.3	5.2	5.8	5.4	6.2	6.1	6.1	5.9	6.6	6.3
Total Gross General Expenditure											
per capita (current $)	361	368	394	395	408	424	446	501	562	611	671
per capita (constant $)	648	637	660	647	641	644	642	679	711	731	741
% change (constant $)		0.6	5.7	−0.1	0.9	2.3	1.6	7.7	6.6	4.4	2.8
% of total expenditure	100	100	100	100	100	100	100	100	100	100	100

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Miscellaneous Expenditures												
per capita (current $)	2	3	0	0	0	0			0	0	0	0
per capita (constant $)	2	3	0	0	0	0			0	0	0	0
% change (constant $)	−95.0	16.7	−99.0	−7.0	−13.0	54.8				22.2	−41.0	65.6
% of total expenditure	0.3	0.3	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0
Total Gross General Expenditure												
per capita (current $)	739	845	959	1,101	1,381	1,623	1,792	1,975	2,151	2,408	2,823	3,236
per capita (constant $)	774	829	878	938	1,021	1,013	982	999	1,006	1,032	1,067	1,080
% change (constant $)	5.9	8.4	7.1	8.0	10.4	0.7	−1.8	2.9	1.7	3.6	4.7	2.5
% of total expenditure	100	100	100	100	100	100	100	100	100	100	100	100

Source: Appendix to this study, available from School of Public Administration, Carleton University.

When one examines more specifically the goals and ideals reflected within each of the main policy field envelopes in the federal expenditure system, one sees the more subtle shifts in priorities and in the rhetorical but very real language in which they are expressed. We present here only capsule summaries, but more detailed analysis can be found in the sources cited.

Social Policy Expenditures

In the field of social policy, the mid-1970s to mid-1980s have witnessed several interwoven changes that are contained within the general portrait of slightly declining real dollar expenditures. In the mid-1970s there was a largely unsuccessful federal-provincial attempt to produce a more integrated overall income security system.[13] In its full-blown state, the system was conceived to include a complete array of policies and programs ranging from employment policy right through to old-age security. The debate thus embraced a full range of normative conceptions of social policy — from a guaranteed income, to defences of universality and attacks upon it, to establishing efficiency as well as security in the system. This grand "comprehensive" debate fell apart by the late 1970s as other issues took hold, including social policy decisions taken by non-social welfare agencies and centres of power in the federal cabinet. Although, the comprehensiveness of the debate ended, the debate itself did not. Rather, the arena of debate shifted to other policy cubbyholes. Thus, changes in the unemployment insurance program were introduced to rein in some of the liberal features of the 1971 reforms. The concerns about the costs of the programs financed under the Established Programs Financing led to changes in the federal-provincial agreement to cap the open-ended nature of these costs. Social policy activists, disappointed at their overall defeat in the mid-1970s, managed to have the child tax credit introduced, a program that was truly redistributive in nature. Meanwhile, family allowances had been made taxable. This made them more redistributive and at the same time attacked universality by stealth rather than by direct means.

In 1980, with the envelope system in full swing, there were further glimpses of the shifting conceptions of social spending and policy. The federal Liberals' five-year expenditure plan indicated explicitly in 1980 that social spending would be a lower priority than other areas of spending. The language of debate also changed both in the internal overview documents and in public speeches. Social spending was to be "targeted."[14] This would, it was hoped, allow the debate partially to avoid the universality issue. The targeted groups that were identified were women and the aged (the latter including mainly single women, many of whom were living in poverty). There were enrichments of the child tax credit and the old-age guaranteed income supplement. Later, as

the 1982–83 recession hit, the overall language of debate changed. Social policy at one level came to be expressed in the sterner language of "safety nets" as neo-conservative rhetoric came to the fore. Once again, the sometimes disguised and involuntary nature of the link between social priorities and budgeting dynamics occurred. The automatic operation of countercyclical stabilization programs took hold as the recession deepened. Social spending, defined broadly, increased counter to the 1980 plan. Other decisions, too, were partially beyond the power of the social policy ministers. Thus, in 1982, the "six and five" program was introduced by a small cabal composed mainly of economic ministers. Ostensibly an anti-inflation measure,[15] the program put ceilings on some social pension programs as well. Despite this kind of climate, there was also debate on the medicare system which, at the federal level, produced virtually 100 percent all-party support for its egalitarian principles.

Thus, in the realm of social policy and social expenditures, goal setting and the nature of the goals themselves (including the language of expression) do not operate in an elegantly simple system. In an overall sense, one can conceptualize social spending in the context of a debate between those who see social policy as promoting a redistribution of income, and those who see it as virtually a right of citizenship and hence a matter of overall equity in more general terms. Yet the goals are never expressed in these terms alone or in a consistent way over time. This was also the case in earlier periods. The many post-World War II social welfare initiatives were couched in the language of "reconstruction policy and Keynesian "stabilization." In the 1960s, the debate was couched in the language of self-styled "wars of poverty." Thus, in various kinds of rhetorical clothing, redistribution and equity were joined by concerns for stability and, as we shall see below, by other ideas which increasingly begged the question about what the differences between social and economic spending really were.

Economic Development Expenditures

In the mid-1980s, the envelope for economic and regional development contained an array of programs located in over seventeen "economic" departments. The dynamics of how politicians set goals and priorities in this realm of budgeting is as normatively untidy as it is in social policy. Here again it is useful to take a look at some features of the earlier 1970s when a formal envelope did not exist. Part of the debate in the early 1970s was couched in the concept of an "industrial strategy."[16] At its core, this was a debate focussed on how Canada could best strengthen its manufacturing sector, in light of its trade opportunities and constraints. Inevitably, the debate became engulfed in the larger debate about how interventionist the strategy was. But it was not and could never be an undifferentiated debate on the efficiency and competitiveness of Cana-

dian industry. In the midst of this goal-setting debate, partly linked to it but also partly operating in its own political arena, was the debate over regional policy. This debate involved concerns about whether regional development expenditures were a form of welfare and stabilization or whether they were genuinely contributing to economic development.[17] Interspersed among these larger clusters of normative concerns were still other debates about how to allocate expenditures (and regulatory and tax choices too) in other related policy fields. Thus, expenditures on science and on research and development policy, on transportation, and on manpower training were governed by the overall debate as well as by their own agendas.

In all of this interplay of political goals and ideas, individual ministers who presided over departments (and who were members eventually of the cabinet committee which had to manage the later envelope) applied still other criteria. These were derived from their concerns as constituency politicians. In part, this is itself a form of regional politics, but it is not regional policy in the sense noted above. Thus, ministers would make individual economic decisions in relation to the benefits to Cape Breton or Winnipeg or Montreal. When the economic development envelope was established, the staff of the Ministry of State for Economic Development made a formal attempt to have ministers think and act in such a way as to enhance "real" economic development.[18] This involved an attempt to present ministers with information in categories that were more in accord with the "factors of production" that produced economic development ("economic development" being defined as the generation of new productive wealth and efficient production). Thus, program and expenditure proposals were to be gauged in relation to their impact on capital formation, labour market mobility, research and development, resources, infrastructure, and the like. Regional policy in this formal conceptualization virtually disappeared.[19]

There was merit in trying to persuade ministers to think in this way, but the approach failed not only because it was difficult to think in such a way but because it did not coincide wholly with either the normative agenda or the way power is structured within the cabinet and in Canadian society as a whole. Thus, in the early 1980s, the budgetary outcomes that emanated from the cabinet committee on regional and economic development also reflected the normative patchwork quilt that the politics of economic development is. For example, one large expenditure decision that did partially reflect the new "development" orientation was the decision to alter the historic Crow Rate subsidies. The Crow decision, however, was not an unambiguous decision motivated only by creating a more efficient transportation infrastructure. It was also the partisan centrepiece of a Liberal western Canada strategy.[20] A cabinet committee on western affairs had been created in 1980, as had a special $4-billion (later reduced to $2-billion) Western Development Fund. The

initial sponsors of this western initiative, hoping for a few more seats in the Liberal electoral desert that the West had become, envisaged spending the money on a host of smaller projects. The minister of transport, however, seized the budgetary and political initiative, including the preaching of the new development ethos, and, backed by the minister of finance, garnered almost all the funds for the one Crow initiative.

In the meantime, other expenditure decisions reflected still other dimensions of the meaning of economic development. For example, loan guarantees and direct equity expenditures were involved in the bail-out of Canadair and de Havilland. A special regional fund also emerged to enable regional ministers on the committee to play a judicious game of regional policy and regional politics.

Energy Policy Expenditures

Operating partially within the rubric of economic development policy during this period was energy policy. Energy policy in the 1970s had certainly been a part of economic policy concerns, since the world energy price shocks of 1973 and 1979 were of major economic importance in two respects. One concerned the fiscal impact both on federal expenditure obligations and on revenue sources; the other concerned interregional economic flows and federal-provincial equalization.[21] We refer to this later in Chapter 7 in the specific case of Alberta budgeting, but two points should be noted here. First, in the latter half of the 1970s, the energy revenue process and the energy expenditure process involved their own political arena to a significant extent; and, politically, this had little to do with the economic development envelope (when it formally existed) or the pre-envelope expenditure process. Thus, from 1976 on, prices and hence revenues were set by the prime minister and the premier of Alberta. On the expenditure side, massive spending such as the aforementioned Oil Import Compensation Program, which suddenly leapt from $1 billion to $4 billion in 1979/80, was based on decisions taken by the prime minister in 1973 but was supported by a strong federal-provincial consensus among premiers from both producer and consuming regions. To keep the importance of these Oil Import Compensation Program expenditures in some perspective, it should be noted that in 1980, when envelope managers looked at the growth of subsidies in the economic development envelope, these energy subsidies accounted for over half of the subsidies. In relation to the annual deficit of that period, these expenditures accounted for about 40 percent of the virtual doubling that occurred.

In the period since 1980, energy expenditures in the wake of the massive initiatives contained in the Liberal National Energy Program (NEP) were even more the product of decisions taken outside the economic development committee which had nominal charge of these

expenditures. Only three ministers made the NEP decisions in the context of an intense partisan, interregional, and intergovernmental bargaining contest over burgeoning energy rents. Both the revenue and the expenditure systems were objects of dispute. The NEP involved a struggle over revenues and prices; but its objectives, none of which explicitly embraced economic efficiency, concerned deep-seated underlying concepts which, in varying combinations, had been present in the earlier 1970s debate about energy policy and therefore about energy's place in economic development. The NEP initially involved projected expenditures of over $18 billion governed by the goals of fairness, security of supply, and opportunities for Canadians to participate. Many features of the policy ran into difficulties when the world oil price assumptions on which the NEP was based failed to materialize. Severe revenue shortfalls occurred and the 1982 recession took hold. Clearly, space does not allow a full account of the NEP any more than of the other spheres of expenditure referred to above, but the general point to stress again is that the NEP's goals were politically diverse for many good reasons and that the NEP emerged from its own arena of power.

Defence Expenditures

The final envelope to be looked at briefly is that of defence expenditures. We have already portrayed their decline since the 1960s and mentioned their important link to industrial procurement and to the regional dispersal of government personnel. The desire to de-emphasize defence expenditures was the result of an expression of priorities in the early Trudeau years, which especially focussed away from the North Atlantic Treaty Organization (NATO).[22] Later, as expenditures declined and as the useful life of existing weapons systems declined, pressure mounted to reinforce the commitment to NATO and to national defence. In 1979 and 1980 the short-lived Clark government and then the Trudeau government both committed themselves to an annual increase of 3 percent in real dollars toward maintaining Canada's NATO obligations. This included equipping the armed forces with new aircraft and other weapons systems. Since then, the government has consistently said that it is meeting this 3 percent goal. This may or may not be true, depending on the focus one takes and the data one uses. The data in Table 4-2 do not suggest that overall defence spending has increased since 1980. However, NATO-related defence spending could have increased.

We have by no means covered all of the envelopes or sectors of spending. Nor have we given the full flavour of the overall priorities that have governed either the recent five-year period or earlier periods. while each spending sector partially marches to the beat of its own political and economic drum, there is nonetheless a concerted effort to produce some political coherence over the package at any given time. The degree

to which this coherence is achievable or has staying power depends on a number of factors, including the nature and intensity of criticism not only from other political parties but also from other centres of de facto power, such as the U.S. government, the provinces and private interests.

The Liberal government in 1980, for example, attempted a strategy that was explicitly based on a desire to redirect spending and other priorities in such a way as to skirt the provinces.[23] The political intention was to build up a more direct set of relationships between the federal government and individual Canadians. This form of anti-provincial nationalism was intended to counter the Clark government's espousal of Canada as a "community of communities." It was also a product of Liberal frustration against a perceived view that had cumulatively portrayed the federal government in the 1970s as a debt-ridden, mismanaged, impersonal government while portraying the provincial governments as competent, responsive and close to "their" people. This view was easily reinforced by the fact that the federal Liberals faced a sea of provincial governments commanded by opposition parties. The Trudeau government countered with its "who speaks for Canada" strategy. The Charter of Rights and Freedoms, the shift of energy incentives from the invisibility of the tax system to the visibility of direct grants, and the megaproject-focussed economic development concept of the early 1980s were all, in part, reflections of this approach to priorities. They could not, however, be wholly sustained, nor were they the only forces driving expenditures.

One must keep in mind the fact that besides being governed by attempts to set annual priorities, the expenditure process is also governed by the dynamics induced by other priority-setting events. These include Throne speeches, budget speeches, and special prime ministerial initiatives. The last of these include "unplanned" initiatives (in the sense of a normal fiscal framework exercise), such as the 1975 wage and price controls program, the August 1978 budget-cutting exercise ordered by the prime minister on his return from a world economic summit, and the "six and five" program of 1982. Thus, a study of priority setting recently concluded that there were almost as many abnormal priority-setting processes as there were normal ones.[24]

Conclusions

We have given two somewhat separate portraits of expenditure budgeting, the first being of the formal structure and process, the second being of goals, purposes and goal setting. The latter included a look at the dynamics and trends in particular policy fields corresponding to the main envelopes of spending. Clearly, budgeting involves both purpose and process. Within the federal government there is no wholly coordinated system as might be envisaged by professional budget managers. While

our overall views of federal budgeting must await the examination of the revenue and tax side of the equation, several initial conclusions can be offered here about federal expenditure budgeting when one melds purpose and process.

First, at the level of overall goal setting, the nature of the federal process (even taking into account recent reforms such as the publication of a five-year expenditure plan) does not produce a single coherent occasion, even on the expenditure side. The presentation of the estimates does not induce a grand debate about the government's expenditure priorities, nor does it produce an alternative view of the official opposition's view. When one adds the frequency of budget speech occasions, it is not difficult to see that one's sense of seeing "where the nation is going" does not have a focussed arena or time frame. Past data on spending may reveal priorities with the clarity of hindsight, but the future is always muddier and less manageable and cooperative.

One can say, however, that the goals and ideas that accompany utterances and debate about expenditure are broad, and that they are broad for good reasons. When debates about spending occur, one is debating *politically* not just on what one wants to do about the future but also on how much of the cumulative past one wishes to retain. That is why the struggle over the A, B and X budgets, not to mention the Z-based budget (categories that are alphabetically elegant and managerially serene) are politically meaningless unless one begins to fill in their meaning in terms of ideas and goals as well as in terms of centres of power. The same can be said about the utility of envelope budgeting.

The coherence of budgetary goals and processes disobeys the dictates of managerial systems for other reasons as well. Thus, a second overall conclusion about federal expenditure budgeting is that the goals and priorities of particular broad sectors can be only partly understood by looking at overall priorities. Partially distinct normative agendas and centres of power govern these areas. Social, economic, and regional development, energy, defence, and other areas are thus partially driven by their own political/economic configurations, whose budgetary outputs, let alone outcomes, cannot be understood at a macro level only. This becomes all the more true when one considers the nature of fields such as fiscal and monetary policy. Too often one confidently equates "budgeting" with macro policy, even though the real world increasingly does not conform to these categories. This is true whether the real world is defined in terms of powerful private interests or centres of cabinet ministerial power.

A third overall point deserves emphasis. This concerns the link between the professionalization of budgeting and the political values brought to bear to judge the adequacy of budgetary decisions. In Chapter 2 we traced the presence of several contending notions of budgetary reform, all of which are present in the various major arenas of budgetary

influence. As a political philosophy, monetarism — linked as it is with the larger neo-conservative critique of government — has influenced not only macro policy but also spending and how it should be controlled. Keynesian notions continue to exert a partial influence, at least to the extent that deficit budgeting and the operation of automatic counter-cyclical stabilizers continue to have expenditure effects.

At the level of parliamentary accountability, the introduction by the accounting profession (led by the auditor general) of concepts such as "value for money" and "comprehensive auditing" has produced mixed results. To the extent that "value for money" criticism raises concern about the importance of efficiency in government spending, it serves an important political function, since efficiency is one important political value. To the extent that it falsely induces a belief that "value for money" is somehow the same as "*values* for money," it is profoundly misleading.

The latter is a particular problem when one links it to the new array of information and to the concepts inherent in "comprehensive auditing." Parliament has never had as much information about spending as it has now, but it is mainly information prescribed by the cabinet or by professional purveyors of the "value for money" ethos. Since auditors cannot provide substantive critiques of actual policy, they go through intellectual contortions to try to talk about policy indirectly — that is, by auditing "systems." Instead of saying directly that a policy is bad or unwise, they question the system used to reach the decision or to implement the program. This can result to a non-so-subtle indirect criticism of policy. The auditor general (who is an unelected agent of Parliament) is given an army of assessors to assess systems and produce information, much of which is of dubious utility to elected parliamentarians. Meanwhile, members of Parliament, who have been elected to defend and promote values and ideas, are given a corporal's guard to criticize real policy. The result may well be the worst of both worlds. One gets neither good auditing of the old "honesty and probity" kind nor intense and informed political criticism of the best democratic kind. Moreover, the new auditing treats spending as virtually distinct from revenue. Some issues are examined, but not as trade-offs with spending and only in relation to elusive "systems."

There are other dimensions to each of these initial conclusions about federal expenditure budgeting, but we shall reserve further comment until we have looked at the revenue and tax goals and processes. They do suggest, however, the need to distinguish the management of budgeting from the politics of budgeting. The reform of the budgetary process and of budgetary decisions must somehow distinguish bad and good politics (that is, values and power) from good and bad management, the latter being far less important than the politics of budgeting.

Chapter 5

Federal Revenue Budgeting

The federal revenue budget, along with the Speech from the Throne, is probably politically the most important institutionalized statement that a government delivers. Indeed, one might go so far as to say that the former dominates the latter, because the budget speech deals with concrete measures while the Throne speech includes more general statements of intent. Given this prominence, the revenue budget process, which culminates in the minister of finance's budget speech, is quite remarkable. Here we have a statement, on which a government may fall or may see its credibility seriously damaged, that is prepared by a single minister and a small group of his officials, with virtually no input from any other department or minister (save, on occasion, the prime minister). Ideas are not vetted in cabinet or in any of its committees; other ministers are committed to support policies into which they have had no input and with which they may seriously disagree. Tax measures may be announced which substantially impact on the policy fields of other ministers, who may not even have had prior knowledge of the provisions.

In addition, the revenue budget is the primary focus of the federal government's macroeconomic stabilization efforts. It is principally (but not exclusively) in the finance minister's budget speech that the government addresses the issues of unemployment and inflation, and announces its policy stances toward these concerns. These politically critical announcements by the minister of finance override the statements or musings of any other member of the government except the prime minister. As noted in the previous chapter, we cannot ignore the role of the Bank of Canada as an actor in macroeconomic management and budgetary debt charges. However, here too it is noteworthy that the

governor of the Bank consults regularly only with one minister, the minister of finance.

Given these special aspects, the power and prestige of the Department of Finance and its minister are not difficult to appreciate. This power flows from their dominance (monopoly power?) of macroeconomic policy and their ability to affect specific policy fields in substantial ways. There have been a number of detailed studies of the federal government's revenue budget process as it operated up to about 1979. Among the more notable are those of David Good[1] and Douglas Hartle.[2] In this chapter we shall briefly summarize the process, as it is described in considerable detail by these authors. We shall then devote more attention to revenue budget developments since 1979, focussing on some of the main issues that have arisen in this later period. The chapter will conclude with an examination of federal revenue budget outcomes in parallel with the examination of expenditures in the previous chapter.

The broad parameters of the revenue budgetary process, as they existed prior to 1979, still remain. On a continuing basis, the department updates its revenue forecasts and conducts analyses of possible tax structure adjustments. The examination of tax changes is spurred, at least in part, by the flow of suggestions made to the minister and the department both publicly and privately by various interest groups and individuals and by other members of the government and members of Parliament. Suggestions for technical changes come from the Department of National Revenue.

Traditionally, in the spring, the minister of finance presents his fiscal plan to his cabinet colleagues who sit on the priorities and planning (P&P) committee. This statement focusses on the fiscal year beginning approximately a year from then. It contains the department's forecasts for key economic variables, the target levels of revenue and expenditure, and the projected budget deficit. With the introduction of the Policy and Expenditure Management System (PEMS), the fiscal plan statement has also come to include the department's recommended apportionment of total expenditures among the policy sector envelopes. These allocations are based on earlier P&P discussions and on projections of the costs of the sectors' existing programs (the A-base).[3] Once endorsed by the P&P committee, the expenditure total and the envelope allocations become the basis for the preparation of the main estimates to be presented to Parliament in the blue book in February before the start of the fiscal year. The revenue side of the fiscal plan becomes the basis for the minister's next budget speech.

Budget Frequency

With this sketch of the revenue budgetary process as background, we now turn to four issues that have emerged since 1979 or have been

continuing topics of interest before and since then. The first is the trend over the last several years toward more frequent budgets (or, as they are sometimes called, financial/economic statements). Some of the substantive implications of this trend will be discussed below; at this point we wish only to suggest the effects on process. While the increased frequency of revenue budgets has disrupted the cycle sketched above, the change in certain parts of the process is not likely to be a major one. Economic and fiscal forecasts are continually being updated in any event, with the fiscal plan being adjusted accordingly. In part, however, the increased frequency of budgets reflects the difficulty of undertaking economic forecasting in the environment of recent years. Forecasting, no matter how sophisticated, essentially relies upon the stability of trends and relationships established in the past. In an extremely volatile environment, such as that experienced by the industrialized economies since the mid-1970s, many of these historical relationships have been disrupted. As a consequence, economic forecasting has become more difficult and the period over which a forecast remains valid has become shorter.

The Budget and PEMS

A second change in recent years that has already been noted is the introduction of the PEMS. As we saw in Chapter 4, while this system is primarily intended to regulate the expenditure budgetary process, it has also affected both the revenue budgetary process and the role of the Department of Finance. As noted in Chapter 4, after the creation of the Treasury Board as a separate entity and before the inauguration of PEMS, the Department of Finance had declining influence over the government's spending decisions. The department was certainly dominant in the determination of global spending limits and, in addition, appears to have had a varying influence on whether new spending proposals would be implemented. On the revenue side, it is not an exaggeration to say that the Department of Finance held a monopoly position; no other department had any appreciable input into revenue totals and tax structure.

Under PEMS the department's role has changed vis-à-vis both the revenue budget and the expenditure budget. As we have already noted, the department now plays the lead role in determining the total budgetary allocations to each of the sectoral envelopes. It thus has more input than previously into the expenditure budget beyond determining the aggregate amount.

On the revenue side, the department's preparation of the fiscal plan now attracts more attention from other ministers and is subjected to somewhat closer scrutiny. Planning by the ministers of an envelope committee would be disrupted if their total allocation were to change during the planning period because of a significant change in the fiscal

plan. Therefore these ministers have reason to be interested in the Department of Finance's fiscal plan and the forecasts that underlie it.

Finally, under PEMS, the Department of Finance is primarily responsible for determining who gets special allocations outside the normal envelope process. These special allotments may be larger than an envelope's own policy reserve. The department's recommendations to the P&P committee place it in a powerful position to determine incremental shifts in the allocation of expenditures. In sum, under PEMS the Department of Finance has seen its power enhanced with respect to the expenditure side of the budget, while its virtual monopoly power on the revenue side has been diluted only slightly.

Budget Secrecy

The third issue is certainly not new, but it has taken on renewed prominence in recent years. This is budget secrecy.[4] The origins of this tradition are well known; they go back to concerns that individuals who gain prior knowledge of a budget's contents may be able to use the information to profit unfairly and at the expense of others. While this concern remains, it is relevant only to instances where *some* individuals obtain prior knowledge. If everyone were to receive a preview of a budgetary item at the same time, no unfair advantage would exist. It would be as if the item were first revealed in the budget speech. Yet the concept of budget secrecy has become interpreted in a broad sense, namely to prohibit any form of information release prior to the budget speech itself.[5]

One reason for this all-inclusive secrecy derives from the earlier-noted prominence of the budget speech. The announcement effects of budgets are important to governments. Whether the economic news is good or bad, the budget speech is an opportunity for the minister of finance, on behalf of the government, to interpret the situation in the most advantageous (or least disadvantageous) light by noting the positive impacts of past policies and the negative impacts of factors beyond the government's control. It is an opportunity to demonstrate effective economic management by announcing policy initiatives to respond to economic problems and to take advantage of positive developments. Moreover, the budget speech is an opportunity to do all this in a single coordinated statement, which has been carefully prepared and timed to the best advantage of the government. Finally, a politically good budget provides a platform and momentum for government, cabinet ministers, and backbench members of Parliament alike for a considerable period thereafter, thus prolonging the image of competence, leadership, and action.[6]

In this context, the strength of a broadly defined notion of budget secrecy is more understandable. Prior announcements and statements of intent in advance of the budget speech would diminish the important

announcement impact of the speech itself. At the limit, one can envisage a situation in which the political opportunities present in a budget would be completely dissipated by a series of pre-budget releases that would be isolated and would essentially be indistinguishable from the myriad of other government releases. Thus, there exists an important political reason for extreme budget secrecy which has little to do with the initial rationales for secrecy.

However, the incentives do not all pull in one direction. The preparation of the budget by a small group, relatively isolated even within the government, involves risks. This problem was addressed head on by David Good in *The Politics of Anticipation*.[7] As the title suggests, the minister of finance and his officials must try to read the minds of their various constituencies (the tax community in Good's terms) and anticipate their responses to possible tax changes. The continual lobbying conducted by business and other interests outside the immediate budget context certainly provides important information. In addition, the minister engages in a very active round of pre-budget consultations with a variety of interest groups and seeks input from economic researchers and forecasters. These consultations undoubtedly help reduce the risk of bringing forth a politically unpalatable budget, but the insurance is far from complete.

Political and economic errors of judgment can still occur. The harsh reception of the budget of November 1981 is the outstanding recent case in point. Over the following months, rather than realizing any of the potential benefits described above, the government's competence to manage the economy was seriously questioned, many of the budget measures were withdrawn or significantly modified,[8] and the political reputation of the minister was seriously damaged.

The minister of finance and his department thus face a serious dilemma. Though the trade-off is certainly not complete, to a large extent they must choose between maximizing the announcement impact of the budget speech and reducing the risks that accompany secrecy. As we have seen, both can be extremely important.

One of the direct consequences of the November 1981 budget was a discussion paper by the minister that re-examined the question of budget secrecy.[9] While this paper was the most extensive discussion of the issue by a minister in some time, it certainly was not the first. Some of the minister's recent predecessors had also raised the question, though generally in passing.[10]

The discussion paper raised several possibilities for easing the constraints imposed by budget secrecy. While noting that extensive pre-budget consultations existed, it argued that they were less useful than they could be because the minister and his officials were prevented from responding in ways that might reveal measures that were under consideration. The paper therefore suggested that these consultations should

be augmented by allowing the minister to establish task forces to consider particular issues, as well as establishing a permanent advisory committee of outside experts. The latter group could formally be constituted as a tax reform commission that would function in much the same manner as the current Law Reform Commission. Another suggestion was that the minister should issue "coloured" discussion papers on issues that might be included in future budgets. These papers would serve notice that a particular issue was being considered, and this would stimulate public discussion. Finally, the paper suggested that the autumn should become the established budget time. This would allow individuals and interest groups the time to prepare and make pre-budget submissions to the minister. It would also assist provincial treasurers and finance ministers in the preparation of their budgets, which are generally brought down in the spring. However, it is questionable whether a federal finance minister would allow himself to be locked in on budget timing.

In an era of big government, the practice of budget secrecy seems to many to be increasingly anachronistic. It has led to such recent comical absurdities as television cameramen focussing over the finance minister's shoulder to catch a voyeur's glimpse of the soon-to-be-delivered budget. However, it is anachronistic partly for more substantial reasons. First, claimed budget leaks, when they have occurred, have not resulted in ministerial resignations. Second, the practice of secrecy has contributed to a serious lack of internal cabinet discussion of budget proposals, despite the fact that the budget is a critical centrepiece of any government's mandate and plan of action. Third, while budgets are cast in secrecy, thus producing the need for often highly ritualistic pre-budget "consultation," other decisions made by government in the realm of regulation and spending and loan guarantees — often involving or conferring financial benefits at least as large as tax changes — are made much more openly and involve just as much potential for people to profit from prior knowledge.

Nevertheless, formal budget secrecy remains in place. The advantages described earlier still remain. In addition, the government is inclined to be wary of the reaction of the parliamentary opposition and the media to anything that they might perceive as a budget leak. It is unlikely, however, that an orderly, fully public discussion of possible tax measures would be viewed with hostility. In the most recent budgets, the government has in fact seemed to be moving toward effectively reduced budget secrecy, as suggested in the discussion paper, without addressing the issue directly. These budgets are finessing the risks associated with secrecy by making greater use of discussion papers on specific topics (e.g., pension policy, investment income taxation, and inflation) and by delaying the implementation of policies announced in the budget pending consultation with interested groups (e.g., small business tax sim-

plification, mortgage insurance, and the Indexed Security Investment Plan).

Budget Content

The fourth issue that has become more prominent in recent years (although it can be traced to the late 1960s) involves the broadening goal content of federal revenue budgets. During the 1960s and the first part of the 1970s budgets were very Keynesian in nature. Their principal focus was on short-term macroeconomic fine-tuning. The government attempted to use tax measures and expenditures actively to stimulate or restrain the economy.[11]

The four basic goals of macroeconomic policy, stated in classic Keynesian terms, are economic growth, full employment, reasonable price stability, and balance of payments equilibrium. The political and economic task of balancing and/or dealing with these four goals is difficult enough. As revealed in budget speeches, however, Canada's elected political leaders have found it necessary to broaden the goals still further to include such matters as overall concerns for regional economic disparities, overall distribution of income between rich and poor, energy security, and economic structure. In one sense, of course, it should not be surprising that broad priority concerns of the government should be revealed in budget speeches. In another sense, however, the establishment of macro policy is a surprisingly different kind of political occasion now than it was in the 1960s.

While the goals of economic policy have broadened over the entire period examined, and thus have made the policy trade-offs more difficult, it should be noted that there have been shifts among the goals within particular blocks of time within the period — that is, while it has been politically necessary to express and state a broad range of goals in formal terms, choices have been made in practice. As exercises in political choice, these periodic rankings of goals need to be understood.

In the post-World War II era, Keynesian macro policy was in a fundamental political sense an idea that justified a form of government intervention which, for the most part, had been ideologically illegitimate in previous decades. Its underlying premise (cast in a period of time when the 1930s Depression was seared on the collective memory of Canadians and the world) was that government, in the interests of both growth and a more stable economy, could play an active macro role as economic "manager."

For the labour movement and for others who had borne the brunt of the Depression's savagery, the Keynesian approach included a commitment to the early forms of the social welfare state and to a goal of full employment. In the latter context, however, there has never been a categorical, politically expressed commitment to full employment. The

closest to such a commitment was in the early Pearson years, but even here the goal was a muted one. In the mid- to late 1960s, regional and overall redistributive goals found greater expression and practice. These goals could be said to have extended even into the early 1970s, at least insofar as they were part of the changes made in unemployment insurance provisions in 1971–72.

By the mid-1970s, however, political commitment to some notion of full employment had receded to a considerable degree for a number of reasons. These are examined in other sources, but here we shall highlight the way in which debate over basic ideas influenced the change in emphasis. Among professional economists (who are, without doubt, the key policy advisers to governments in this policy sphere), ideas changed in response to a subtle mixture of cumulative research findings and ideological political advocacy. The Phillips curve and related evidence made the case that the assumed trade-off between inflation and employment was a false one in the long run. In a larger ideological context, monetarists mounted a strong critique against discretionary fiscal fine-tuning, couching the diagnosis in an overall "government is the problem" thesis that found favour in, and reflected, a basic "small-c" conservative political constituency. When added to the post-1973 oil price shocks, a climate was gradually created that helped call into question the efficacy of the earlier Keynesian concepts, but without replacing them.

While a clear new consensus did not exist, the goal content of macro budgetary policy and the way the goals were expressed did change. Beginning in the mid-1970s, budgets became less active and were ostensibly more concerned with effecting structural adjustments. Statements began to appear in budget speeches to the effect that the government's control over the economy was limited by external factors, by the impact of provincial policies, and by the actions of private sector decision makers.[12] Speeches began to emphasize the need for a longer-term approach in order to create stability and effect desirable structural changes.[13] At about the same time, the government also committed itself to limiting its own expenditure growth to the growth rate of the GNP.[14]

The reasons for this shift are both economic and political. After a long period of sustained growth and price stability (at least compared to what was to come) in the Western industrialized countries generally, things began to unravel in the mid-1970s. It is not our purpose to conduct an analysis of this period, but the general factors are well known — the fallout from the way the United States chose to finance the Vietnam War, the first oil price shock, and a coincidence of shortages in a number of other primary commodities around the world. Keynesian budgetary policy no longer seemed to work, and policy makers and the economics profession generally were forced to re-examine many long-standing, strongly held views. One reaction was to denigrate the ability of govern-

ments to control or even to modify the courses of their respective national economies, especially in the short run.

If governments no longer had faith in their ability to maintain unemployment and inflation rates at acceptable levels by historical standards, they no longer wanted to be tagged with the political responsibility for them. Thus, they sought to create distance between themselves and these variables so as not to be judged too harshly by the electorate.[15] Clearly, one way of creating this insulating distance was to emphasize the strength of forces that everyone recognized as being beyond the government's control. Given the openness of the Canadian economy, events in the rest of the world, particularly in the United States, received special attention.

At the same time that federal budgets were attempting to withdraw from active short-term stabilization, they began to focus more on effecting longer-term structural change in the economy. One began to see increasing emphasis on the goals of placing the Canadian economy in a position in which it could take full advantage of economic recovery (which would come from abroad) and of facilitating the technological and energy adjustments that were required. This has been the dominant theme of virtually every budget since November 1978.

However, the attempt to retreat from an active short-term stabilization role has not been a complete success by any measure. While the government has tried to move away from Keynesian-style stabilization policy to address a wider range of issues, it has found itself in a position of having to deliver more frequent budgets because of criticisms that the last one did not adequately address the immediate problems of the economy. Obviously, the worst recession in fifty years was not the best time for the government to attempt to withdraw from active fiscal policy! Between October 1980 and February 1984, successive ministers of finance brought down a total of six budgets or fiscal statements, a rate of one almost every six months. Thus, the change in the substance of budgetary policy was less than one might expect, given the change in tone of individual budgets. While the government attempted to adopt a longer-range perspective, it found itself forced to adjust its course approximately every six months.

A related substantive change in the budget was also occurring during this period. Although the budget was becoming a narrower document in the sense just described, it was also becoming a broader document in another dimension. While the budget obviously still deals with government revenues and the structure of the tax system, it has also become a more general statement of economic and financial policy by including detailed announcements on federal expenditures, regulation, and federal-provincial affairs. Examples include the National Energy Program budget of October 1980, the "six and five" budget of June 1982 and the

"fast-track" budget of April 1983. One could also include in this list the ill-fated Conservative budget of December 1979. In each case, the minister of finance used the occasion of the budget speech to announce policies that involved him in the specifics of all or some of the nonrevenue areas listed above.

The foregoing discussion of federal revenue budgeting since about 1979 leads us to several conclusions in addition to those already noted. One consequence of increasing budget frequency has been an enhancement of the tactical announcement impact. Each budget speech remains important as a political "event" and is suitably attended by the media, the parliamentary opposition and others, but the budget speech has lost impact as a goal-setting occasion wherein the government sends signals as to its direction and priorities. With the next budget never more than a few months away, and with the broader set of values and policy domains included in each budget, the ability of a budget speech to chart the fiscal course of the government has been compromised. Private sector decision makers thus find it more difficult to extract the information they require about general and specific government intentions.

Another area that has become increasingly unclear is the textbook distinction between microeconomic and macroeconomic policy. As budgets have shifted their emphasis from stabilization to structural questions, they have simultaneously and concomitantly become less macroeconomic and more microeconomic documents. Clearly, there has been a shift away from a policy-making structure in which the Department of Finance was responsible for macro policy (i.e., stabilization) and in which other departments of government dealt with the micro issues. In our view, this is a change for the better, particularly if at the same time the traditional micro-oriented departments become more aware of macroeconomic events. Our discussions earlier in this chapter and in Chapter 4 suggest that this latter shift may also have occurred.

A third general conclusion that emerges is that the rather well-defined distinction between the revenue and expenditure budgets prior to 1979 has also become blurred. In part, as we have seen, this is a consequence of the Policy and Expenditure Management System (PEMS); moreover, it is one of the changes in the decision-making process that the designers of PEMS sought. In part, it may also be a consequence of an increasing awareness of the substitutability between policy instruments. The publication of a tax expenditure account, which the Department of Finance initiated in 1979 but unfortunately dropped shortly thereafter, contributed to this awareness.[16] Finally, the trend toward more budgetary involvement in structural concerns has promoted the merging of revenue, expenditure, and even regulatory considerations. Thus, suggestions for budgetary reform, if they are to be regarded seriously, must address both revenue components and expenditure components.

Federal Revenue Trends

Having examined the revenue budget process, particularly the way it has developed since 1979, we now turn to an examination of the revenue data. What trends become evident? How — if at all — do they relate to the budgetary developments we have already discussed?

The total revenues of the Government of Canada, even when measured in constant dollars, grew steadily until the mid-1970s (see Table 5-1). Subsequently, constant dollar revenues declined, reflecting a number of structural changes, including indexation, investment tax deductions and credits, the refundable child tax credits, and a transfer of personal income tax points to the provinces. Nevertheless, at the end of the period, revenues stood 65 percent higher than they had at the beginning (measured in per capital constant dollars). However, because incomes also grew over that period, federal revenues as a proportion of GNP did not grow nearly as rapidly.

The most important revenue source for the federal government for many years has been the personal income tax. Moreover, based on the trends indicated in Table 5-1, the relative prominence of this tax appears to be growing. In particular, the share of total revenues attributable to personal income taxes jumped quite markedly in the late 1960s and early 1970s; since then it has fallen back somewhat, reflecting the structural changes noted above.

The second largest revenue-source is the corporate income tax. This tax, however, has steadily decreased in prominence with only a few interruptions of the general trend. A third relatively large source of revenue is the federal manufacturers' general sales tax. This tax has also declined in relative size, beginning in the late 1960s, partly reflecting exemptions from the base and declines in the tax rate during the 1970s.

Explicit accounting of payroll taxes was introduced about midway through the period shown in Table 5-1. These taxes have grown in relative and absolute importance since their introduction. Federal revenues from oil and gas levies increased markedly with the introduction of the National Energy Program (see Chapter 4). Finally, it is worth noting that non-tax sources of revenues have provided a fairly substantial portion of total federal revenues and have grown marginally over the period.

Obviously, these trends were not constant over a period of more than two decades. It is instructive to construct groups of years and examine differences between them. Any grouping of this sort is arbitrary, at least in part, in the sense that one can combine years to define a period based on a wide variety of criteria. We have opted to define periods based on political boundaries, as follows: from 1963 to the end of the Diefenbaker Conservative government in 1963; the Pearson Liberal governments

TABLE 5-1 Federal Government Revenues, 1959/60 to 1981/82

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Total revenues											
as % of GNP	15.8	16.2	15.8	15.1	14.9	15.9	15.7	15.4	15.8	16.2	17.9
per capita (constant $)	601	605	589	582	583	646	656	658	668	696	764
% change (constant $)		2.9	−0.6	0.6	2.1	12.8	3.4	2.3	3.3	5.8	11.5
Personal income tax											
per capita (constant $)	187	196	199	189	190	211	206	220	240	262	307
% change (constant $)		7.3	3.4	−3.0	2.2	13.0	−0.5	9.0	11.1	10.9	18.8
% of total revenue	31.1	32.5	33.8	32.6	32.6	32.6	31.4	33.5	36.0	37.7	40.2
Corporation income tax											
per capita (constant $)	127	134	120	115	114	131	129	118	113	128	149
% change (constant $)		8.0	−8.5	−2.6	1.4	17.4	0.1	−6.8	−2.4	14.9	18.5
% of total revenue	21.0	22.1	20.3	19.7	19.6	20.3	19.7	17.9	16.9	18.4	19.5
Manufacturers sales tax											
per capita (constant $)	103	96	96	98	106	125	141	140	133	121	121
% change (constant $)		−4.6	2.2	3.7	10.4	20.1	14.7	1.7	−3.3	−7.6	1.0
% of total revenue	17.1	15.9	16.3	16.8	18.2	19.3	21.4	21.3	20.0	17.4	15.8
Payroll taxes											
per capita (constant $)											
% change (constant $)											
% of total revenue											
Oil and gas taxes											
per capita (constant $)											
% change (constant $)											
% of total revenue											
Non-tax revenue											
per capita (constant $)	58	61	60	59	62	69	68	67	74	82	91
% change (constant $)		7.8	−0.4	0.2	7.4	13.8	−0.8	1.9	12.0	12.3	13.1
% of total revenue	9.7	10.1	10.1	10.1	10.6	10.7	10.3	10.3	11.1	11.8	12.0

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total revenues												
per capita (constant $)	18.9	19.1	19.5	19.4	21.2	20.3	19.6	18.2	17.8	18.5	19.3	21.6
% change (constant $)	819	844	900	970	1,064	954	913	849	845	897	917	994
% of total revenue	8.6	4.3	7.8	9.0	11.3	−9.0	−3.1	−5.9	0.6	7.1	3.5	9.8
Personal income tax												
per capita (constant $)	327	342	364	369	401	363	362	306	293	338	348	360
% change (constant $)	8.1	5.7	7.7	2.4	10.3	−8.2	1.2	−15	−3.1	16.4	4.4	4.6
% of total revenue	40.0	40.5	40.5	38.0	37.7	38.0	39.7	36.0	34.7	37.7	38.0	36.2
Corporation income tax												
per capita (constant $)	119	109	123	143	160	158	128	127	124	125	128	111
% change (constant $)	−19	−7.6	13.7	18.2	13.1	0.4	−18	0.0	−0.7	1.7	3.1	−12
% of total revenue	14.6	12.9	13.6	14.8	15.0	16.6	14.0	14.9	14.7	14.0	13.9	11.2
Manufacturers sales tax												
per capita (constant $)	112	121	128	139	128	97	94	96	94	85	85	85
% change (constant $)	−5.7	8.9	7.3	9.4	−6.6	−23	−1.9	4.0	−1.3	−9.0	1.9	0.6
% of total revenue	13.7	14.3	14.2	14.3	12.0	10.1	10.3	11.3	11.1	9.5	9.3	8.5
Payroll taxes												
per capita (constant $)	64	64	68	78	95	94	98	94	97	92	93	110
% change (constant $)		−0.0	8.3	15.6	24.2	−0.2	5.8	−2.9	4.1	−3.9	2.7	18.8
% of total revenue	7.9	7.5	7.6	8.0	9.0	9.8	10.7	11.1	11.4	10.3	10.2	11.0
Oil and gas taxes												
per capita (constant $)				11	55	29	16	9	7	14	38	96
% change (constant $)					405	−46	−45	−40	−30	110	185	157
% of total revenue				1.1	5.2	3.1	1.7	1.1	0.8	1.5	4.1	9.7
Non-tax revenue												
per capita (constant $)	102	112	121	134	126	115	116	121	132	139	134	137
% change (constant $)	12.8	11.7	9.2	11.6	−4.1	−7.8	2.0	5.5	10.8	6.5	−2.4	3.3
% of total revenue	12.4	13.3	13.5	13.8	11.9	12.0	12.7	14.2	15.6	15.6	14.7	13.8

Source: Appendix to this study, available from School of Public Administration, Carleton University.

TABLE 5-2 Growth Rates of Total Federal Revenues and Selected Components

	Total Revenue	PIT[a]	CT[b]	Non-Tax Revenue	Total Revenue as a % of GNP
	(average annual % change, constant $)				
1959/60 to 1962/63	1.0	2.6	−1.0	2.5	15.7
1963/64 to 1967/68	4.8	7.0	1.9	6.9	15.5
1968/69 to 1971/72	7.6	10.9	1.7	12.5	18.0
1972/73 to 1973/74	8.4	5.1	16.0	10.4	19.5
1974/75 to 1978/79	−1.2	−2.3	−1.0	1.3	19.4
1979/80	7.1	16.4	1.7	6.5	18.5
1980/81 to 1981/82	6.7	4.5	−4.4	0.5	20.5

Source: Appendix to this study, available from School of Public Administration, Carleton University.

a. Personal income tax.

b. Corporation income tax.

from 1963 to 1968; the first Trudeau government, 1968 to 1972; the Trudeau minority government, 1972 to 1974; the Trudeau majority of 1974 to 1979; 1979/80, a fiscal year in which two elections occurred; and the first part of the last Trudeau government, from 1980/81 to 1981/82. The resultant patterns are shown in Table 5-2.

Obviously, not all the observed changes can be attributed to the differences between governments, nor are all governmental revenue policy changes reflected in the data shown. Nevertheless, several interesting patterns emerge. Revenue as a percentage of GNP was quite steady until 1968, when it jumped substantially, and it has remained at a higher plateau since then. Similarly, the average annual growth rate of total revenues (in constant dollars) increased markedly after 1968. The 1974–79 period is an important exception to this pattern. In part, it reflects the onset of serious economic difficulties following the 1973 oil shock, the impact of the indexing of personal income taxes in 1974, the transfer of personal tax points to the provinces as part of the 1977 Established Programs Financing arrangements, and the introduction of several new and fairly large tax credits and deductions (e.g., the investment income deduction, the investment tax credit, and the refundable child tax credit). The pattern of personal income tax collections also reflects this change in tax structure and the fluctuations in the economy, to which it is quite sensitive.

With the notable exception of the Trudeau minority government term, the growth rate of corporate income taxes was consistently below the rate of increase of revenues as a whole. The 1972–74 rate clearly stands out as an interruption of the overall decline in the relative importance of this tax, which we have already observed in Table 5-1. Finally, we note that non-tax revenues consistently increased more rapidly than total revenues up to about 1979 and from then on increased more slowly.

TABLE 5-3 Personal and Corporation Income Tax Expenditures

	Personal Income Tax Expenditures		Corporation Income Tax Expenditures	
	% Growth Over Previous Year	% of Total Budget Revenues	% Growth Over Previous Year	% of Total Budget Revenue
1972	—	13.6	—	11.6
1973	25.3	13.3	71.2	15.4
1974	47.5	15.1	39.1	16.6
1975	28.8	17.5	6.3	15.9
1976	15.4	18.6	−14.6	12.5
1977	13.0	20.5	9.3	13.3
1978	35.0	26.3	—	—

Source: Allan M. Maslove, *Public Policy, Tax Expenditures, and Distribution* (unpublished manuscript, 1981)

The data on taxes collected do not, of course, indicate the importance of instruments of taxation to achieve economic and social policy objectives. These are perhaps better revealed by examining tax expenditure data. Estimates of personal and corporation income tax expenditures are presented in Table 5-3 for the years 1972 to 1978.

The rate of growth of personal tax expenditures is substantially in excess of the rate at which revenues from this tax were increasing.[17] In part, this growth reflects the fact that as incomes grow, individuals tend to take more advantage of tax expenditure opportunities, and the value of the available deductions and exemptions increases. Tax expenditures thus become, in part, priorities of government that are not fully controllable. The total also grew throughout the 1970s because the federal government enacted major new tax expenditure measures and enriched several others.

Corporate income tax expenditures were smaller and their growth much more uneven than personal tax expenditures. Their temporal pattern is strongly influenced by corporate profits and the volume of investment activity, both of which are much more volatile than personal income. However, particularly during the first half of the 1970s, government reliance on these tax measures as instruments of policy was also growing.

Budgets and Budget Interests

The broadening and changing goals of budgetary policy obviously do not emerge out of thin air. Macro policy and economic policy making are not immune to changes in the relative influence of key interests. A full listing of these interests could be said to include provincial governments and their bureaucracies, as well as business, organized labour, agriculture, the key professions, and numerous grassroots and public-interest

groups. The role of provincial governments is discussed in Part III. Here we focus briefly on business and labour to illustrate the shifts in influence since the 1960s. Shifts in influence and power do not emerge in pristine form from statistical tables. The question of which interests are in the ascendancy and which are in relative decline is always a matter of intense dispute. Business and labour are, moreover, not monolithic interests; they interact in complex ways with federal and provincial governments, both as interest groups and, equally important, as large individual companies or particular labour unions. As stressed in Chapter 1, although some observers concede the importance of the right to lobby, they characterize the entire political process as being dominated by "rent-seeking" interest group politics, in which more and more real resources are consumed in income-shuffling, rather than in creating new wealth and growth.

All of the above suggests the need for caution in interpreting shifts in power, but it does not absolve one from the need to comment on such shifts when they are discernible. In this regard, it is important to note changes in the 1960s versus the 1970s. Part of the broadening of goals and content in overall budgetary policy in the 1960s was due to the greater influence of labour and other public interest groups in that decade when compared to the 1970s, especially the last half of the 1970s. This was reflected in direct political pressure and in the political party system. In the party system, for most of the 1960s and into the early 1970s the Liberal Party was controlled more by its left-of-centre element than by its right-of-centre influences. The New Democratic Party also had more political leverage — indirectly because of a growing labour movement, and directly because of bouts of minority government.

In the 1970s and extending into the 1980s, shifts in influence occurred. The structure of business interests was altered with the establishment of two new lobby groups, the Business Council on National Issues and the Canadian Federation of Independent Business. The Business Council on National Issues was established just after the imposition of wage and price controls, precisely the time when key business leaders felt that macro policy was becoming less and less appropriate. At the other end of the corporate scale, small business activists had earlier formed the Canadian Federation of Independent Business, partly out of dissatisfaction with the capacities of the then-existing lobby groups but also out of a deeply ingrained sense that excessive governmental intervention and bureaucracy were harming their interests. These two groups, along with established business interest groups such as the Canadian Manufacturers Association and the Canadian Chamber of Commerce, had some distinct interests, but their net effect was to increase considerably the pressure that the business community could exert and the ideas it contributed, relative to the role of business in the 1960s.

Correspondingly, the relative influence of labour, and its more instinctive preference for the primacy of employment goals, declined in the 1970s. In part, this was due to slower growth rates in its own membership and to the loss of marginal political leverage by the federal New Democratic Party from 1974 on. Organized labour did experience a growth in public service union members but this did not readily translate into increased influence, since these members were easily linked, in politically adverse ways, to a small handful of visible public service strikes and to the emerging critique of the growth of bureaucracy. The wage and price controls program also weakened union influence, not only because wages were controlled but also because, in its midst, the labour movement was engaged in a debate about tripartism. It flirted publicly with the concept only momentarily, but in its own counsels it nonetheless raised serious debate and considerable division as to how to forge its relationship with government over the long term.

These shifts in influence do not impact in tidy ways on every macro federal budget or on each provision within any given budget. They do, however, create an underlying climate of macro policy and of the way in which different interests view the adequacy of such policy.

For example, the growth in tax expenditures during the 1970s and the decline in revenues in the late 1970s and early 1980s have been partially attributed to the latter phase of greater influence by business interests.[18] Tax expenditures, it is argued, are the preferred instruments of business interests, and the rapid growth of tax expenditures in the 1970s reflected an increase in business-oriented pressure during that period. The evidence in support of this argument is mixed. In the early 1970s the federal government did initiate a number of significant tax expenditures which primarily benefited investors and high-income taxpayers. However, few such measures appeared in the second half of the decade; in fact, the largest new tax item in the latter period was the refundable child tax credit, which favoured low-income taxpayers.

The continuing growth of tax expenditure totals into the late 1970s was largely the result of provisions introduced earlier, not the result of large numbers of new measures. Later, in the early 1980s, the recession was mainly responsible for restraining Ottawa's revenues, and this in turn was the main contributor to the rapidly increasing budgetary deficit.[19]

Summary

Clearly, the revenue budget of the federal government involves much more than the financing of government activity. In this chapter we have focussed on four issues that are important to an understanding of Ottawa's revenue budgets in recent years. They are the trend toward more frequent budgets, the introduction of PEMS, budget secrecy, and

the broadening goal content of federal revenue budgets. As a result of these combined trends, the revenue budget has become less of a goal-setting occasion, that is, less able to chart a clear, consistent economic course. The traditional distinction between macroeconomic and micro-economic concerns has become blurred, as has, to a lesser extent, the clear separation of the revenue and expenditure budget processes.

The output data reflect the impact of these developments as well as the "automatic" operation of tax provisions in differing economic circumstances. Finally, we briefly discussed the influence of business and labour interests on changes in tax structures and revenues.

Part III

Provincial Budgeting

Chapter 6

The Formal Processes

Since there is far less published research on provincial budgeting[1] than on federal budgeting (especially on a comparative basis), the chapters in Part III contain a much more detailed presentation than those in Part II. This is necessary because we examine five provinces when dealing with processes (Alberta, British Columbia, Nova Scotia, Ontario, and Quebec) and all ten when dealing with basic output data. The finances of the territorial governments are not examined, although output data for them are included in the Appendix.

Chapter 6 presents a basic descriptive account of the formal budget process. Chapter 7 then locates these formal attributes in the broader, more dynamic context of the varied provincial political economies and of the overall pattern of data on provincial budgetary outputs. Finally, Chapter 8 explores other dynamics related to goal setting and politics, including electoral politics.

In this chapter we focus on three dimensions of the formal provincial budgetary processes — the legal parameters and basic structures; the overall executive budget cycle; and budget frequency, timing and information. Our aim is to highlight the more integrated nature of the provincial revenue/expenditure events, to convey a general sense of the evolving nature of information presented to legislatures, to note the emerging use of mini-budgets, and to stress that the formal processes of provincial budgeting are not wholly uniform across the country.

Legal Parameters and Basic Structures

The legal parameters of provincial financial management and budgeting derive from several sources. These sources include standing orders of

the legislatures, conventional practices of the assemblies, Speakers' rulings on these orders and practices, legislative assembly acts, the British North America Act, the provinces' financial administration statutes, audit acts, and civil service and collective bargaining laws, as well as various tax statutes, municipal acts, and other laws that are peculiar to individual provinces.

These legal parameters are central to the budgetary process. They establish the constitutional control of, and accountability for, the expenditures and revenues of provincial governments. They are the basis for the rules, responsibilities and procedures in resource allocation. They also partially create and define power relationships between the government and the opposition, between public employer and employees, between provincial governments and local governments, and between central agencies and Crown corporations. From a political viewpoint, these parameters provide legitimacy for budgetary choices, thereby increasing the likelihood of their acceptability.[2] The parameters to be directly considered in this chapter are the general financial practices of the legislatures, the management procedures spelled out in financial acts, and the mandates of provincial auditors. We first survey the main participants and organizations involved in provincial budgeting within this legal framework.

Provincial government departments (or ministers[3]) and Crown corporations are the major spenders in the budget process. They are the initiators of demands for expenditures within the structure of government and, in a few cases, of ideas on revenues. Under the annual budget cycle, they prepare estimates on the financial and personnel resources that are needed to maintain and enrich existing programs, as well as proposing some new spending initiatives. They interact and negotiate with central agencies to promote their interests, to explain and justify their budgetary submissions, and to protect their relative managerial autonomy. All the provinces have "a large number of small, functionally oriented departments."[4] Such a pattern of pervasive departmentalization can create problems of coordination for the cabinet and its central agencies. Provincial financial administration statutes frequently give departments the responsibility for the management of their financial affairs under the general supervision and direction of the Treasury Board and Finance Department and under the final authority of the cabinet.

There is considerable variation among the provinces with respect to the number of their government enterprises, the proportion of provincial employees in these enterprises, and the scale of expenditures in their enterprise sectors. In the early 1980s, Nova Scotia had six provincial government enterprises which collectively contained 9 percent of provincial public employees; Alberta had nine enterprises representing 22 percent of the province's employees; Ontario had ten enterprises which represented 20 percent of provincial public employees; Quebec had

nineteen enterprises which also represented 20 percent of employees; and British Columbia had fifteen enterprises which constituted 35 percent of provincial public employees.[5] The extent to which such provincial enterprises represent claims on the public purse varies both across provinces and over time. There is no doubt that public enterprises are instruments of provincial policy and that, in recent years, provinces have been attempting to exercise greater control over the financial practices and performance of their enterprises.

All provinces have a financial committee of cabinet, which is called the Treasury Board (except in Ontario and Nova Scotia, where it is called the Management Board). These boards are old agencies of provincial governments. Their evolution since the time of their founding statutes has been described as follows:

> Originally the Boards' functions were to prescribe departmental bookkeeping methods, to issue warrants and to make regulations for the auditing of public money. Later the Boards were used to review public accounts, to give final decisions on ruling by the Comptroller or Auditor, and to determine the correct appropriations to which to charge disputed expenditure. The most recent financial legislation gives the Treasury Board the explicit or implicit responsibility for general management policies, expenditure control, establishment control and general allocation of the government's financial resources. The latter change happened unevenly in the provinces over the past two decades, but the change happened. Treasury Boards became high profile, multi-purpose Cabinet committees with major policy roles.[6]

As the cabinet's financial committee, the Treasury Board is usually chaired by the finance minister and supported by a secretariat of staff located within the Finance Department. This is the case in Alberta, B.C., Nova Scotia and, until 1982, in Quebec.[7] In Ontario and now in Quebec (and Newfoundland), management or treasury boards have their own full-time ministers, deputies and separate secretariats. As the governments' general managers, provincial treasury boards have been assigned responsibility for administrative management, financial management, personnel management and policy management (see Chart 6-1).

Provincial finance and treasury departments are also influential agencies and play a central part in the budgeting process. The following responsibilities are typically found in the mandate of finance departments:

- management and administration of the consolidated revenue fund;
- the collection, management and control of revenues;
- the management and control of all disbursements;
- fiscal policy;
- financial, economic and statistical records and accounting systems;
- preparation of the public accounts each fiscal year;

CHART 6-1 The Management Functions of Provincial Treasury Boards[a]

Administrative Management

- establish, prescribe or regulate administrative policies and procedures for the efficient and effective operation of the public service
- initiate and supervise the development of management practices and systems for the efficient operation of the public service
- conduct or authorize an examination of the operations or administration of a department or agency
- report to the Cabinet on any other matter concerning general administrative policy

Financial Management

- direct the preparation and review of forecasts, estimates and analyses of revenues, expenditures, commitments and other data pertaining to authorized or proposed programs and to assess the results
- control expenditures of public money within the amounts appropriated or otherwise provided for by the legislature
- make regulations respecting the collection, management and administration of, and accounting for public money, the retention and disposal of records, fixing the scale of allowances for travelling and living expenses for public servants, and the setting of fees and other charges

Personnel Management

- act as bargaining agent for the government in collective bargaining
- determine and control establishment requirements of departments and agencies

Policy Management

- coordinate the implementation of policies and programs sanctioned by the legislature and Cabinet
- oversee the implementation of government priorities in departmental proposals and submissions.

a The above categories and powers are based on several provinces' financial statutes and related documents. The chart is intended to convey the broad range of management responsibilities of provincial treasury boards and their secretariats. No single pattern or mix of functions exists across all provinces. For example, in some provinces the Treasury Board plays a key role in personnel matters while in other provinces a civil service commission performs these tasks. See J.E. Hodgetts and O.P. Dwivedi, *Provincial Governments as Employers* (Montreal: McGill-Queen's University Press, 1974), chapter 3.

- all financial matters not assigned to Treasury Board or to another minister;
- the manner in which contracts and financial agreements may be handled; and
- a pre-audit disbursement control verifying that there is sufficient legislative authority for expenditures.

It is obvious that the provincial finance minister is the chief economic and financial minister in the cabinet. The finance mandate is a broad one, with a collection of powers and with general responsibility for "managing" the provincial economy and more or less pursuing a stabilization policy (see Chapter 8).

Under our system of responsible government, it is the political executive — the cabinet — which is responsible for selecting, preparing, and presenting the legislature with expenditure proposals and, to a less collective extent, with revenue proposals. Provincial cabinets are similar to the federal cabinet in that while they are the main forum for deciding the government's priorities and policies, their work is facilitated by a number of cabinet committees.[8] All five provinces reviewed here have formal cabinet committee systems.

The committee system in Alberta is composed of two general coordinating committees with the same membership — finance, priorities and coordination; and the Treasury Board. In addition, there are four policy field committees — economic, planning and resource development; metropolitan affairs; rural development; and social planning. The B.C. cabinet committee system comprises three statutory committees (environment and land use, the Treasury Board, and B.C. Transit); four standing committees (planning and priorities, economic development, social services, and legislation); and two special committees (coal development, federal-provincial relations). In the Nova Scotia system, there are four principal cabinet committees: the Policy Board, the Management Board, social development, and resource development. In essence, the latter two are sector committees of the Policy Board. Similarly, Ontario has the Policy and Priorities Board, the Management Board, the Board for Industrial Leadership and Development, and policy field committees and secretariats with ministers dealing with social development, resource development, and justice. In addition, special committees are established periodically to address specific issues or problems such as regulatory reform. Quebec has a committee system which contains three coordinating committees (budgetary and legislative priorities, the Treasury Board and legislation) and three policy sector committees (economic development, social development, and cultural development).

Some common patterns are evident in these provincial cabinet committee systems. Each system has a policy planning and priority setting committee which is chaired by the premier. Each has a management board or treasury board that is concerned with expenditure control and other functions. Each system has created and organized additional committees around the idea of major policy fields or sectors, particularly social development and economic and resource development. In addition, each system is supported by executive secretariats and central

agencies composed of public servants. Each provincial executive branch has an office of the premier, which mainly offers administrative and support services, and an executive council office or cabinet office, which services a number of committees in most provinces. Often the office of the premier is located within the executive council office. Treasury and management boards have their own secretariats, sometimes as a separate organizational entity but normally as a section within the finance portfolio. We shall consider the dynamics of cabinet committee systems and central agencies in Chapter 8.

The legislative branch is at the heart of the concept of responsible government and financial accountability. While it cannot initiate expenditure proposals or increase the spending levels of the government, the legislature can, in principle, debate the budgetary plans of the government and accept, reject, reduce or amend them.[9]

In contrast to the federal scene, the committee of the whole (the entire legislative assembly in committee with relaxed rules of procedure) continues to play the leading role in budget scrutiny in nearly all the provinces. The committee of supply deals with the estimates of public moneys required by the government for the next fiscal year, and the committee of ways and means passes the resolutions appropriating from the consolidated revenue fund the money voted by the committee of supply. The committee of the whole serves as the forum for the normal committee stage after second reading of all legislation, including supply bills. Quebec is the only province, following the lead of Ottawa, that has eliminated the committee of supply and the committee of ways and means. Saskatchewan has combined them into a committee of finance. Quebec has an active system of standing committees to consider estimates and legislation.

> Until recently there was usually a committee for each major department, but in the reform introduced in June 1983, the number of committees was reduced from twenty-five to nine. The members of the Assemblée nationale have opted for a few large committees which will study draft bills, estimates, financial commitments, government regulations and autonomous agencies supervised by the departments in question. This is quite a change, since the Assembly was moving in the direction of more specialized committees before this reform. Although the Public Accounts Committee had for several years been merged with the Finance Committee, there was a separate committee which met monthly to consider financial commitments and there were proposals to create separate committees for public corporations and other autonomous bodies and for delegated legislation. So the new committees are sectoral and multifunctional; they will make more use than in the past of subcommittees. The time for debate on the estimates has passed from forty-five days to two hundred hours of intensive examination during a two-week period. The Public Accounts function remains with the Budget and Finance Committee.[10]

All other provincial legislatures continue to review the estimates in a committee of the whole. Budget debates and proceedings in the committee of supply commonly take up half or more of the sitting time in a session.[11] These proceedings entail general debates on each department's estimates, more detailed consideration of the proposed expenditures vote-by-vote, and any other issues and concerns raised by opposition members and government backbenchers. Proceedings in the committee of ways and means are purely a formality, and debate normally does not occur "because there has already been the widest possible discussion of the estimates on which the resolution referred to the Committee of Ways and Means is based."[12]

The question arises whether the committee of the whole is less or more effective than standing committees as a device for criticizing, checking and controlling the executive in financial matters. Clearly each approach has advantages and disadvantages, but on balance political scientists who have written on this issue support the use of the committee of the whole, though there are some dissenting voices.[13] This verdict is also related to the fact that most provinces do not have an automatic deadline date for approval of spending, as in the federal rules. Debate is limited to a given number of hours (as outlined below) and this gives the opposition somewhat more leverage in the delicate art of "withholding supply" until accountability is secured. Ontario has a hybrid system, having retained the committee of the whole but supplemented it with a number of standing and ad hoc select committees. Only Ontario and Quebec have active standing committee systems involved in the consideration of estimates. Other provinces, such as Alberta, have committee structures on paper but not in practice.[14]

The financial procedures of provincial legislatures follow a sequence of events and documents.[15] Each session begins with the Speech from the Throne, which outlines the government's general outlook, policy priorities, and themes. It may also outline the general legislative programs which the government plans to introduce in the session. Debate on the Throne speech is limited to six to ten days, depending on the province. It is common practice for the estimates of revenue and expenditure to be tabled concurrently in the provincial legislatures. This joint presentation permits a balanced view of provincial finances, as Dunn explains:

> The two types of estimates — expenditures and revenue — may be contained in separate documents but some attempt will usually be made to relate the information in one type to that in the other. Estimates of revenue are usually accompanied by the expression of planned tax or other revenue measures in what is generally referred to as the "budget address." Together the Estimates of Expenditure and the Budget Address form the "Provincial Budget."[16]

In some provincial jurisdictions the integrated presentation of revenue and expenditure estimates has largely been a tactical device adopted by a government in order to minimize the opportunities for opposition parties to have it both ways in the legislature — to attack the government for tax increases when these were announced and later to denounce the government for expenditure cuts when these were made public. The hope was not to eliminate the apparent inconsistency in the stands being taken by the opposition (a naive hope) but to curb the tendency somewhat.

The budget address/statement/speech is delivered by the finance minister, usually in late winter or spring, and it highlights new expenditure and revenue measures. Later in this chapter we shall consider in detail the timing and frequency of provincial budgets, and the nature of documentation and information presented.

After the finance minister has delivered the budget speech, the budget debate takes place. This is generally led off by the finance critic of the official opposition party, who is followed by departmental critics, opposition and government backbenchers, and cabinet ministers. In most provinces the number of days that may be spent on the budget debate is limited to five to ten days. In Alberta, however, there is no time limit.

Time limits regarding supply are another point of difference among the provinces under study. Alberta, Ontario and Quebec have a fixed number of days or hours set aside for supply procedure. Alberta has a limit of 25 sitting days for the consideration of main estimates by the committee of supply, and a limit of 12 sitting days for consideration of the main and supplementary estimates of the Alberta Heritage Saving Trust Fund. In Quebec, the revenue budget is debated in plenary with a time frame of 25 hours. On the other hand, British Columbia and Nova Scotia (and other provinces outside the scope of our case studies) have no time limitations on the committee of supply. The time spent on the estimates may exceed 200 hours in a given session.

All provinces have provisions for closure on general supply business, though the procedures and actual use of closure differ. All have regular question periods to question ministers, though the frequency and length of the periods vary. All have special warrants "to authorize expenditure that has not been approved by the Legislature, where expenditure has not been foreseen or has been insufficiently provided and is urgently needed for the public good."[17] Provincial finance acts provide an accountability safeguard with special warrants, requiring statements in the public accounts on the authorization of special warrants and expenditures under them. In addition, all provinces have legislative auditors and public accounts committees.

In each province there is a legislative standing committee that has the post-audit function of calling the government to account for actual expenditures. A recent survey of Canadian public accounts committees

found that "so varied are these committees that the most noticeable feature they have in common is the term 'public accounts' in their names."[18] The variations are evident in their composition, procedures and work activities:

> For example, during 1980 one provincial committee (Ontario) met twenty-four times; another (Quebec) has not considered the Public Accounts or the Auditor's report for five years. One committee (Saskatchewan) always meets behind closed doors; others are always open to the press and public. Two committees (Nova Scotia and Prince Edward Island) are chaired by members of the government party; all others are chaired by Opposition members. Most meet only during the period that the legislature is in session; one (New Brunswick) meets only between sessions. One committee (B.C.) has six ministers as members; two (Prince Edward Island and New Brunswick) forbid ministers even to attend meetings. Some call only public servants to testify (e.g., Ontario); one (Manitoba) examines only one witness, a minister of the Crown. Some make full and detailed substantive reports on their work and have the results debated in the legislature (Ontario and Saskatchewan); others merely report that meetings have been held and the Alberta committee makes no report to the legislature at all.[19]

Furthermore, the committees vary in size, ranging from 5 to 32 members, with no correlation with the size of the legislatures. They vary in their continuity; some are appointed for one session only, while others are appointed for the life of a legislature. They also vary in the use of research staff, outside experts, and the provincial auditors' reports.

Most academic observers of provincial government argue that public accounts committees are not very successful in investigating and publicizing financial mismanagement in government and in holding public servants and ministers accountable for expenditures. Burns, Kelly and Hanson, McInnes, and Schindeler have all stated that provincial public accounts committees have not been effective control bodies.[20] On the basis of several criteria, McInnes, in a study on provincial public accounts committees done in the mid-1970s, ranked four provinces with a low degree of effectiveness (Alberta, British Columbia, Newfoundland, Prince Edward Island), three with a medium level of effectiveness (Nova Scotia, New Brunswick and Quebec, though more recent events would drop Quebec into the low category), and three with a high level of effectiveness (Manitoba, Ontario and Saskatchewan). He concluded that at least half the provinces had public accounts committees that were of limited effectiveness, due to polarized partisanship, parochialism, and unsuitable organization and procedures.[21] The committees are largely the product of the prevailing political culture and traditions of their province, as Kelly and Hanson indicate:

> Public Accounts Committees are too often used as just another forum for extending the debate on partisan issues and for expressing constituency concerns that comprise much of the work of the legislature. In part, too,

CHART 6-2 Comparative Data on Selected Canadian Legislative Auditors

	Canada	N.S.	Quebec	Ontario	Alberta	B.C.
Financial attests	Y	Y	Y	Y	Y	Y
Mandate specifies						
Economy	Y	N	N	Y	Y	Y
Efficiency	Y	N	N	Y	Y	Y
Effectiveness	Y	N	N	Y	Y	N
Performs pre-audit	N	N	N	N	N	N
Government may require pre-audit	N	Y	N	N	N	N
Full right to Crown agency information	N	Y	N	Y	Y	Y
Presents report to Speaker for tabling	Y	Y	N	Y	N	N
Some role for legislature in auditor appointment	N	N	Y	Y	Y	Y
Auditor free of central personnel controls	Y	N	N	Y	N	N
Auditor has separate statute	Y	Y	N	Y	Y	Y
Legislative committee to oversee auditor	N	N	N	Y	Y	N

Source: Adapted from John J. Kelly and Hugh R. Hanson, *Improving Accountability* (Ottawa: Canadian Comprehensive Auditing Foundation, 1981), Appendix B, pp. 124–27. The data are accurate as of December 1980.

> poor performance can be attributed to the lack of a clear understanding of an appropriate role for the committee, and to a lack of agreement by all members about that role.[22]

The role of provincial legislative auditors, like that of public accounts committees, exhibits considerable variation across Canada. Chart 6-2 provides some comparative data on provincial auditors, showing some of the differences and similarities. With respect to their mandates, all the auditors are required to examine and report on the "honesty and probity" with which the provincial government has managed its finances. More specifically, this traditional aspect of audit involves all auditors in examining and reporting on "the collection and accounting for taxes and other revenues, the expenditure of funds as they relate to the limits and purposes authorized by the legislature, and the systems of control to safeguard public money and property from loss, waste and misappropriation."[23] Except in Nova Scotia, the provincial auditors give an opinion on the government's financial statements (published in the pub-

lic accounts) and accounting policies. In Nova Scotia the government hires a private accounting firm to attest to the financial statements.

The Alberta and B.C. Auditor General Acts are the only statutes which explicitly give an auditor the authority to comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review. However, all auditors acknowledge a responsibility to report on the nature of the financial information provided by the government for the legislature.

Along with the federal auditor, four provincial auditors have a form of "value for money" mandate — Alberta, B.C., Ontario and P.E.I. The Alberta auditor is required to call attention to every case in which the following problems are observed:

- Accounting systems and management control systems (including those designed to ensure economy and efficiency), which relate to revenue, disbursements, the preservation or use of assets, or the determination of liabilities, are not in existence, are inadequate or have not been complied with.
- Appropriate and reasonable procedures which could have been used to measure and report on the effectiveness of programs have either not been established or are not being complied with.

In contrast, the B.C. auditor general may (it is a permitted power, not an obligation) include an assessment as to whether any program being administered by a ministry is being administered economically and efficiently. The mandate to assess "effectiveness" is not included. In Ontario, the auditor is required to report in each fiscal year on any cases where either of the following situations has been observed.

- Money has been expended without due regard to economy and efficiency.
- Procedures which could be used to measure and report on the effectiveness of programs have either not been established or, in the auditor's opinion, are not satisfactory.

Certain provincial auditors who do not enjoy the broader statutory mandate are nonetheless attempting to report on "value for money" aspects in government operations. For instance, in Quebec:

> The Auditor is limited by law to a traditional role but he has been moving in recent years in the direction of more comment on the quality of financial management. Since 1981, he has been asking for the right to do comprehensive auditing, but so far the government has not introduced amendments to the law. There is a general move in the Assembly in favour of increased accountability and during the debates on the reform of the civil service act during the autumn of 1983, several members of the National Assembly made the point that the Auditor would have to be given wider powers if the civil service was to be made more responsible.[24]

CHART 6-3 Relationships Between Selected Public Accounts Committees and Legislative Auditors

	Canada	N.S.	Ontario	Alberta	B.C.
PAC asks auditor to attend all PAC hearings	Y	N	Y	Y	N
Auditor advised on PAC agenda and schedule	Y	N	Y	N	N
Auditor attends all PAC report-drafting meetings	N	N	Y	N	N
Auditor helps in briefing PAC before meetings	Y	N	Y	N	N
Auditor helps PAC follow up its recommendations	N	N	Y	N	N

Source: Same as for Chart 6-2, Appendix C, p. 128. Quebec's Standing Committee on Finance, Public Accounts and Revenue had not considered the auditor's report for five years when this survey was done. As a result, that jurisdiction is not included in this chart.

The scope of the provincial public sector assessed by the legislative auditor varies. In every province, the auditor is responsible for auditing the accounts of all government departments and at least some Crown agencies and corporations. Some Crown agencies and/or corporations in every jurisdiction are audited by private accounting firms. This raises the issue of the relationship between the outside auditor and the legislative auditor with respect to these public organizations. Six provincial auditors have a statutory right of access to the private auditors' working papers and to any information of a Crown agency that they do not audit themselves.[25]

All legislative auditors in Canada are required to report annually. In most provinces, the auditor presents the annual report to the finance minister or treasurer, who is then responsible for tabling it in the legislature. In the other jurisdictions it is presented to the Speaker who then presents it to the legislature. Chart 6-3 gives some information on the nature of the working relationship between auditors and public accounts committees. Auditors' reports provide material for question periods and for estimates debates, and also for "horror stories" in the media.

We conclude this section on the legal parameters and basic structures of budgeting by asking the fundamental question: Are provincial legislatures in effective control of the public purse? In a study on the budget process in western Canadian legislatures, Dunn found much that is valuable in existing procedures:

> Unlimited time for estimates debate in three of the provinces, joint tabling of revenue and expenditure estimates, provisions for lengthy budget speech debates, frequent opportunities to criticize government and explicit accountability safeguards for use of special warrants in three of the provinces.[26]

An additional factor that probably facilitates legislative control is the smaller size of budgets and public services at the provincial level.

By contrast, the major conclusion of a recent study on public accounts committees and auditors was "that a number of legislatures in Canada have failed to provide themselves with all the means necessary to hold a government fully to account for its handling of public moneys."[27] We have already examined the shortcomings and limitations of these public agencies. Several other factors have also been identified in explaining why provincial legislatures are not effective checks on executive branches. These include the short sessions of most legislatures; the absence of checks against executive power in defining the rules of the budget preparation game between the budget control agency and the spending departments and enterprises of government; the tendency in some provinces toward one-party dominance and large majorities; the small size of many legislative assemblies vis-à-vis the cabinets; the limited analytical resources and expertise available to opposition leaders and shadow cabinets compared with those of premiers and cabinet ministers; and the evolving concept of ministerial responsibility which, some observers believe, is losing or has already lost its effect as a control on the political executive.[28] These factors will be discussed further in Chapter 8.

Budget-Making Cycles

We turn now to a basic description of the overall budget-making cycles in the five provinces being surveyed. Each province will be considered in terms of the general approach of the present budgeting system, the major budgetary concepts used, and the steps in the annual budget process. The focus is on budget preparation and finalization within the executive-bureaucratic structure of provincial political systems.

Alberta

The current budgetary process in Alberta, which was introduced in gradual steps from 1972 to 1976, is a variant of program budgeting. Barry Tocher has described the process as follows:

> Program budgeting in Alberta refers to a system of budgeting by departmental programs, where a program is defined as a distinct service. A distinction is made between services to the public and activities which support the delivery of services to the public.
>
> Programs are defined so that they do not cross departmental lines. This is to ensure that ministerial and departmental responsibilities are realized and that the programs are manageable entities. However, programs do not have to follow organizational lines within a department. Many different segments of a department's organization may be involved in the implementation of a single program.

> Program budgets are prepared by departments for review by the central agencies employing an ABX budget framework. Within this framework, total budget requests are composed of A-budgets, plus B-budgets, less X-budgets. These components are defined as follows:
>
> A-budget: provides for the minimum expenditures necessary to support *existing* programs at current levels of quality and effectiveness. (This definition requires that all X-budget requests be included in the A-budget.)
>
> B-budget: provides for the enrichment of existing programs (i.e., expansion in excess of that justified by price or volume increases in the A-budget), or for the implementation of new projects.
>
> X-budget: the significant reduction or elimination of existing expenditure commitments. Non-recurring expenditure items are not to be considered as X-budget items.
>
> The definition of ABX budgets may apply to any level of the program and/or organization structure. Program budgets include both direct operating and capital expenditures in order to reflect total program costs and to facilitate program decisions.[29]

Although a formal ABX system is used in Alberta, the X-budget exercises are of the phantom kind. They rarely happen in real terms, not only for the usual behavioural reasons but because of the visibility of the Heritage Fund (see Chapter 7). The presence of the fund as evidence of Alberta's overall prosperity is always fodder for those whose activities are threatened or who simply want more.

The formal stages in the Alberta budget cycle are set out in Chart 6-4 and are quite straightforward. At the cabinet level, two committees are pivotal — priorities and planning, chaired by the premier, and the Treasury, chaired by the provincial treasurer. Within the Treasury, the budget bureau provides analytical support on programs, and the budget planning and economics division does likewise on the overall fiscal and economic posture of the budget.

British Columbia

Since 1978, the B.C. government has been phasing in a zero-base budgeting (ZBB) system.[30] B.C.'s approach to ZBB is revised each year by the Treasury Board. Ministries are required to specify a set of objectives and priorities for the budget preparation exercise. For budgetary decision-making purposes, information is collected at the activity level, which is described as a "budget unit" and defined variously in functional or organizational terms. For each budget unit, financial information by standard objects of expenditure and by objective and output performance measures are included as a basis for accountability. Detailed information is collected for only one fiscal year, but it includes operating expenditures, capital expenditures, and debt-servicing charges. The basic objectives of the B.C. system are financial control and management.

CHART 6-4 The Alberta Budget Cycle: An Illustrative Example of the Formal Process

The planning and approval of the estimates of expenditure of the General Revenue Fund takes approximately twelve months, as follows:

June	A preliminary financial review is undertaken by the priorities and planning committee, and budget preparation guidelines are issued to departments by the provincial treasurer.
July-Aug.	Departments prepare and submit program budgets in an ABX format to the Budget Bureau.
Sept.	The priorities and planning committee conducts a preliminary overview of revenue and expenditure budgets. The Budget Bureau and the Budget Planning and Economics Division prepare briefing material for the committee.
Oct.-Nov.	The Budget Bureau, in consultation with departmental officials, analyzes program A-, B- and X-budget requests and prepares recommendations for the priorities committee's review and decision.
Dec.	Ministers and senior department officials speak to their budget requests at the priorities and planning committee.
Jan.-Feb.	The Executive Council and the Treasury convey the final committee decisions to departments.
	The Budget Bureau forwards instructions to departments for finalizing the budget.
March	Treasury prepares the estimates, documents and appropriation legislation for publication.
	The provincial treasurer delivers the budget address and tables the Estimates.
April	Interim supply is released to departments after royal assent is given to the Appropriation Act (interim supply).
May	The Committee of Supply (legislative assembly) debates and votes on the program budgets, and full supply is released to departments after royal assent is given to the Appropriation Act.

The budget cycle operates in the following way. At the outset of the cycle, the Treasury Board announces a formal funding guideline, which reflects the current level of service in ministries, intended changes in resource allocation priorities, and the forecasted revenue for the year. The enterprise of budget preparation is thus explicitly cost-constrained from its inception. Two types of budget packages of information are required — the operational minimum, which is the level of effort at which it is realistic or feasible to operate, and extensions to the operational minimum, which are described in supplementary budget packages. Cutt describes the next steps of the process:

> Ministries are then required to present to the Treasury Board their set of budget packages in rank order and to specify further a proposed funding level for the ministry for the forthcoming year. Should this proposed funding level exceed the guidelines provided by the Treasury Board at the beginning of the process, the ministry is required to document further those budget packages that exceed the initial guideline, the documentation taking the form of issue papers that provide additional analytical justification of the proposed expenditure. . . . At the beginning of the budget cycle each year, ministries are required to submit a five-year expenditure forecast for all line-items of expenditure and, in the submission of budget packages, to comment where appropriate on the multi-year implications of expenditure proposals.[31]

The B.C. system focusses considerable attention on current levels of expenditure in activities and ministries. The term "zero-base"

> may be taken literally in that each budget unit must document its base (operational minimum) level of effort, and the documentation must include information on the consequences of completely eliminating the activity. Further, the ranking process at the ministry level may rank the operational minimum budget package of any budget unit so low that it falls below the funding level for the year and is therefore eliminated. But the constraints imposed in British Columbia on the definition of the operational minimum and the ranking process suggest, first, that budget unit managers are likely to view the operational minimum level rather than zero base proper as the base from which they operate and, second, that the base is likely to be very close to the current level.[32]

In the past few fiscal years and budget cycles, the use of the ZBB model has been made optional and the Treasury Board has requested that budgetary information be assembled at the program level rather than at the activity level, a level more consistent with that at which political decisions are made.[33] In effect, British Columbia seems to be moving toward a variant of program budgeting.

Nova Scotia

The present budget process in Nova Scotia was initiated in 1979 and is called the management planning and budgeting system (MPBS). This system was also based upon the principles of ZBB:

> This approach to budgeting rejects the notion that one starts from the existing base of expenditures and focusses only on the new increments to be added onto this base. Instead, it begins with the notion that all previous expenditures, that is the existing base, must be decided upon afresh; hence, the idea of a "zero-base." In order to accomplish this, the system must generate information for decision-makers on all existing as well as proposed programs or activities. Ideally, the information provided on existing programs would enable decision-makers to assess the effectiveness and effi-

> ciency of these programs in light of their objectives. In addition, and again ideally, information would be available on alternative programs by which these same or other objectives might be met more effectively and/or efficiently. Finally, this approach ideally should enable decision-makers to assess the relative costs and benefits of various alternatives, including existing programs, in light of their policy priorities. As an added benefit, this same information system should enable decision-makers and their support staff to monitor and thus control the actual expenditures which they have allocated to all programs and activities on an annual basis.[34]

The official objectives of the MPBS are to improve operational planning, to increase participative management, to enhance management communication within a department and between departments, to allocate resources more effectively, and to demonstrate the cost effectiveness of programs/activities/projects. MPBS is viewed as a planning and management tool as much as a budgeting system. As a management process MPBS is defined as a process of:

- proposing and evaluating funding levels within each budget subject; and
- reviewing budget subjects and ranking all funding levels in order of priority.

A budget subject is defined as a meaningful subject selected by management as a focus for evaluation, planning, determining alternatives, and presenting cost-justified recommendations. Budget subjects are usually a reflection of assigned management responsibility. MPBS revolves around the development of alternative funding proposals for each budget subject, starting with the selection of a minimum funding level. The minimum funding level is defined as the funding level below which the subject cannot function if it is to produce any meaningful value for the organization. As the irreducible minimum, it represents the most important element of the budget subject and serves as the basis for evaluation of the need for further funds as identified in higher funding levels.[35]

In addition to a minimum level of funding, MPBS requires the definition of the current level of funding, which represents the current level of service for that budget subject. The current level of service is normally the level of effort, activity or service in a budget subject for which funds have been approved in the current year. At least three funding levels are required to return from the minimum level to the current level of service. Provision is also made for consideration of funding proposals above the current level of service.

After the definition of funding levels, a ranking procedure is used to vet and rank all budget subject packages prior to submission to the Management Board for review. MPBS provides for the development and use of what are called operational indicators. These are intended to cover program output, efficiency, service, and effectiveness. Line

departments are left to their own discretion to select appropriate indicators for their budget subjects.

The MPBS, which is essentially a bottom-up process, begins at the departmental level using a set of instructions, guidelines and forms prescribed by the Management Board. Departments establish their own policy guidelines, which in turn are used by managers to go through the basic steps in MPBS. In brief these are:

- to review the format of the budget subject;
- to identify and evaluate alternative approaches;
- to develop funding levels;
- to review and finalize documentation; and
- to rank and set priorities.

Departments are required to submit their budget submissions and priority listings for Management Board review in November. Staff reports are prepared and each department appears before the board for a budget meeting. The Management Board may make changes in the priorities and it subsequently sets a tentative funding approval. All activities below the funding approval level on the priority listing are not included in the budget.

The departments have an opportunity to appeal the priority listing and tentative funding to Management Board. Subsequently, Management Board takes all departmental priority listings and tentative funding approvals to cabinet for final approval and for consideration of unresolved appeals.

Under the MPBS, the information is much more complete than it was:

> Many more "budget subjects" — programs, activities, and projects — are now identified in ways that enable decision-makers at both the administrative and political levels to obtain a fuller understanding on what exactly it is that provincial revenues are expended. Objectives are more clearly stated. Alternatives are considered. The consequences of various funding levels are outlined in terms of services and outputs and ranked in terms of priorities. An attempt is also being made to develop the capacity to provide information on the actual outputs of departments and agencies in terms of quantity, efficiency, quality, and effectiveness. Finally, all of this information is being generated according to a more standardized system so that intra-departmental and inter-departmental comparisons and assessment may be made.
>
> As was and is to be expected, this system generates a great deal of paperwork, a task that has fallen largely on departmental and agency managers and at all levels of management. From this perspective alone, the new system not only promotes but even requires an increase in "participative management," as well as, at the least, an increase in "management communication within a department (or agency)."[36]

Ontario

Since the late 1960s, the Ontario government's budgets have been prepared under a program budgeting approach. In early July of each year, Treasury produces a fiscal framework document that includes an assessment of Canada's and Ontario's current economic performance and a projection for the coming year. Also included is a statement on the budgetary position of the Ontario government in the current fiscal year, together with a number of alternative scenarios for the following year's expenditures, revenues and deficit, assuming that there will be no policy changes and no alternative possibilities for the economy. At about the same time, Management Board produces an expenditure plan forecast. This is essentially an A-budget exercise, assuming no policy changes and no inflation.

In late August the treasurer prepares a fiscal strategy statement which includes his recommendations to the Cabinet Policy and Priorities Board, the Management Board and the Cabinet Office in general. These recommendations include revenue estimates and the expenditure ceiling for the government as a whole, ministry expenditure targets, and a recommended deficit (surplus) for the coming year. The Policy and Priorities Board and the premier appear to have considerable input at this stage. Although the treasurer is still the dominant actor in establishing these targets, vigorous discussion does apparently occur in the Policy and Priorities Board; the premier has his own political agenda that he wants to implement; and often there is a sense that Treasury is "low-balling" its revenue estimates. There are no other forecasts of revenue, but this sense comes from experience.[37] By late August the fiscal strategy is approved, first by the Policy and Priorities Board and then by the cabinet as a whole.

The final stage in the cycle, which occurs throughout the fall and culminates in late fall (into December), is to strike the final allocations for each ministry. The first real input of the ministries occurs at this stage. They can indicate the impact of their initial allocation on their operations and attempt to have new initiatives funded. Cabinet approves the final allocation for each ministry in late fall or early December.

The treasurer's budget is clearly regarded within the Ontario government as its most important economic instrument or collection of instruments, and the budget speech is regarded as a major goal-setting and tactical occasion for the government. The budget is one of the few occasions on which the government has the opportunity to state its policy stance in a fairly comprehensive and broad fashion.

The Ministry of Treasury and Economics has sole responsibility for the economic forecasts of the Ontario economy. These forecasts extend to five years into the future, but only the first year of the forecast is of real

concern in the government. The government's own forecasts are compared with federal forecasts and with those of a number of private organizations such as the Conference Board, the commercial banks, and Chase Econometrics. Out of these economic forecasts taxation officials calculate estimates of revenue forecasts for provincial taxes (e.g., sales taxes and corporate taxes), as well as for taxes and revenues that are forthcoming from the federal government.

Generally, it is the federal forecasts of personal income tax and federal transfers that are accepted in the provincial budget, because the federal government bases its payments to the provinces on its forecasts. Thus, even if the provincial forecasters are suspicious of the federal forecasts, they still incorporate them into their own budgets because the forecasts represent, at least initially, the revenue flows that they will receive. Adjustments occur throughout the fiscal year as the federal forecast changes.

In the 1983/84 fiscal year, the Ontario officials were so certain that the federal forecast was seriously in error that Ontario's budget numbers did not recognize the federal estimates and thus the initial level of federal payments. Consequently, at the beginning of the year, federal personal income tax payments to Ontario were running substantially above what the province was forecasting, and the province refused to recognize this high level of payment as being real. In fact, by mid-year the provincial forecasters were proven right and the federal government adjusted its forecasts substantially downward and reduced its payments to the provinces accordingly.

Quebec

Like Ontario, Quebec adopted an integrated planning and budgeting system in the late 1960s.[38] Quebec's current system still rests upon the philosophy and techniques of program budgeting. The main stages in the expenditure planning cycle are as follows:

April–June	Determination of the general policy framework by the government and the basic envelopes of departments by the Treasury Board.
July–December	Review of programs, in which departments propose their basic needs and the Treasury Board determines their envelopes.
December–January	Preparation of detailed estimates by departments for approval by the Treasury Board.
December–March	Preparation of estimates by the Treasury Board and submission to the National Assembly.

March–August	Adoption of credits by the National Assembly.

The formulation of the revenue budget in Quebec is not dissimilar in formal terms to that just described for Ontario, so it will not be repeated here. A forecasting exercise is mounted, but it is somewhat more fragile than Ontario's, since Quebec's revenue sources are based on a somewhat less stable manufacturing economy than Ontario's. It is of considerable importance to stress that the Quebec fiscal framework, especially under the Parti Québécois government, is based on the vision of a semi-sovereign nation-state and by a government that sees itself as social democratic and hence interventionist. This means that processes of provincial macro policy are seen in relation to a larger planning and industrial development ethos in which macroeconomic and microeconomic policy are more blurred. As we shall see in Chapter 7, one cannot take too many liberties with this description, since the PQ government also saw itself as a "good manager." There are varying interpretations of the Quebec scene in this regard.[39] This brief excursion into the informalities or dynamics of Quebec budgeting is perhaps a useful warning about how slippery the formal and informal categories of analysis are. Needless to say, this also applies to the other provinces, a point subsequent chapters will make clear.

Only limited conclusions can be drawn from these brief sketches of provincial budget-making cycles. All five provinces have reformed their budgeting systems at least once in a major way since the late 1960s. Ontario and Quebec were the first to reform, in the mid to late 1960s, and Alberta, B.C. and Nova Scotia followed in the late 1970s. All five provinces have adopted a system that attempts to integrate policy planning and management with financial control and resource allocation. In essence, on the expenditure side all five budget systems are based on the concept of program budgeting. As we have described above, this entails a focus on goals, objectives, activities and end results. Yet the new systems have not eliminated the traditional line-item concerns and information packages. Much, if not most, of provincial budgeting still revolves around inputs such as equipment and personnel.

The provincial budget-making cycle takes longer now than before. Under previous, more traditional budget systems, the cycle usually took five or six months in most provinces. Under the program budgeting approaches, the cycle today commonly takes from nine to twelve months. All of the approaches contain both bottom-up and top-down processes. In other words, there is a good deal of formal and informal interaction involving departments, public enterprises and other non-departmental bodies, central agencies, cabinet and cabinet committees. In all the provinces, treasury boards and priorities committees issue

expenditure guidelines to departments (based in large part on revenue and economic forecasts from the Finance Department); all departments prepare and submit estimates and plans; central agents analyze and review these submissions; negotiations take place and cabinet committees and full cabinet then review and finalize the estimates and the budget.

It is not accidental that the typical official descriptions of the budget process in Ontario and Quebec contain a somewhat more explicit reference to a formal fiscal framework or quasi-Keynesian stage in the budget process. This does not mean that other provinces do not have to adopt a framework of some basic kind vis-à-vis total revenues and expenditures. Nevertheless, both Quebec and Ontario, and especially the latter, have seen themselves as more capable of practising some kind of fiscal policy. Because the other provinces have smaller and more volatile economies which are more dependent on resource revenue, they are obliged to be "revenue takers" — that is, they have limited room to vary revenue at their own discretion in a fiscal policy sense. We shall return to the subtleties of this issue in Chapter 8.

The Frequency and Timing of Budgets

All eleven senior governments in Canada share the same fiscal year, which runs from April 1 to March 31. By contrast, a few U.S. states have their own budget years and several have biannual budgets rather than annual ones.[40] The usual budget months at the provincial level are March and April — that is, just before or just after the start of the new fiscal year. Since the 1960s, the overall provincial pattern has been one of regular budget occasions.

Although provincial budgets normally follow an annual cycle, some exceptions do occur. Supplementary estimates, of course, are used. A more interesting exception is the presentation of mini-budgets by a number of provinces in recent years. Mini-budgets involve the presentation of a policy statement dealing with the financial conditions of a government, perhaps providing information on policy goals and priorities, expenditure programs and revenue measures. Mini-budgets are supplementary goal-setting occasions in which new goals are announced or old goals adjusted. They are thus both prospective and retrospective — referring to a previous budget, noting changing conditions, and stating expected trends and intended decisions. The increased resort to mini-budgeting has largely been due to the volatility and fragility of economic circumstances in Canada, especially in the 1980s.

Provincial mini-budgets are thus mainly a phenomenon of economic crises. In recent years, four of the provinces in our sample have used mini-budgets and fiscal and economic policy statements by finance ministers. Alberta has had three mini-budgets. The first in September

1975, dealt with budget restraint guidelines for the following fiscal year in order to control inflation. The second, in September 1982, involved the Alberta Heritage Interest Reduction Program, described as one of the steps in the economic recovery plan for the province. The third, in October 1983, announced an increase in personal income taxes so as to increase revenues and lower the annual budgetary deficit. Nova Scotia, in the autumn of 1975, also announced a restraint program on public expenditure as an anti-inflation measure.

Ontario has had three mini-budgets — one in July 1975 and two in the early 1980s. In July 1975 supplementary actions to the previous provincial budget were announced in a $178-million package of stimulative measures. These measures included a temporary reduction in the retail sales tax, an exemption from retail sales tax for machinery and equipment, a $1,500 grant to first-time home buyers, and a temporary rebate of sales tax on new automobile purchases. In November 1980 the treasurer announced a $260-million package, including a temporary cut in the retail sales tax, to stimulate sectors where economic performance was weak. In December 1983, in what was called a pre-budget statement but was in effect a mini-budget, the new treasurer announced that the province would introduce new winter works projects for unemployed youth, that Ontario Hydro had been asked to trim its borrowing by $200 million, and that taxes *might* increase to cut the provincial deficit. A few months earlier, the Ontario treasurer had said he was studying changing the budget process and considering replacing the usual major spring budget with several mini-budgets. The treasurer stated that "economic circumstances are changing so quickly we may well be at the stage where a twelve-month gap between major budgets is inappropriate."[41]

In Quebec, there have been two cases of mini-budgets or complementary budgetary policies of the provincial government. In November 1981 some retail sales taxes were increased; and in November 1983 an economic recovery package was announced, which included tax cuts and freezes, loan guarantees, tax credits, and a $30-million job-creation program. This mini-budget was an opportunity to make some clarifications and corrections to the previous budget speech, as well as to announce various new measures.[42]

As to basic budgetary information and documentation, the situation in the five provinces demonstrates considerable variety. In Alberta, the basic reporting system is governed by annual information only — e.g., by the estimates and the budget address and by public accounts. No tax expenditure account is published. Consideration was given to presenting five-year forecasts but there was little enthusiasm for them, given the difficulty of forecasting resource revenues which account for about 50 percent of revenues. One Alberta variation of some note is the system of quarterly reports by the provincial treasurer. These are internal reports on the General Revenue Fund and on the Heritage Fund. These reports

have at times been made public, but this is entirely at the discretion of the minister, who has frequently chosen not to make them public when the political climate was judged to be inappropriate. However, the estimates and the annual report of the Heritage Fund are published on a regular basis.

In the early 1970s several important changes in the presentation of the estimates and the budget were adopted. The budget statement was accompanied by appendices, which provided background information on fiscal arrangements and on provincial revenues and expenditures. Revenue estimates were presented in the budget statement rather than in the estimates, and the expenditure estimates contained a brief description of the purposes of funds, a functional summary of each department's expenditure, and data on actual and forecast expenditures over three fiscal years. The presentation of the estimates was divided into two parts, the first presenting operating expenditures and the second showing capital expenditures. This was done to distinguish ongoing operating costs of government programs from long-term capital benefits.[43]

The format of the expenditure estimates was changed again in 1976. The estimates were now organized on the basis of departmental programs and sub-programs, rather than by appropriations which tended to reflect organizational units. "Budgeting by program more clearly illustrates the relationship between projected expenditures and how the service will be of benefit to the public. This will allow debate on the allocation of funds between broad service areas rather than between specific organizational units."[44] All costs, including capital costs associated with program delivery, were to be shown together. Legislative members were asked to vote for individual program allocations instead of for departmental totals. For each program in the estimates, data on permanent full-time positions and "man-year authorization" were also to be provided.

Alberta budget addresses are accompanied by such documents as program estimates, supplementary information-element details, a program structure chart, and budget highlights. Since 1978, a *Financial Summary and Budgetary Review* has been published annually by the Treasury Department. This document has two purposes — to present a clear picture of the province's financial position in simpler terms than in the public accounts; and to compare actual budgetary performance for the year with the financial plan presented in the budget address. Since 1978 there has also been an appendix to the budget on the five major provincial Crown corporations and their capital budgets; and since 1979 there has been an appendix or chart summary of major economic indicators.

In British Columbia, as part of the government's initiatives in financial management reform, the estimates were presented in a new format for 1982/83:

> To reflect accounting policy changes and permit easier comparison with the Public Accounts, information regarding the anticipated revenue and expenditure of special purpose funds will be included in the Estimates. The Estimates will also detail the special purpose accounts which will replace many special purpose funds. This means that the Estimates will now encompass the full consolidated revenue fund. The Estimates will also differentiate between operating transactions, which affect net equity, and financing transactions, such as loans and advances, which will be recovered at some future date.
>
> A further improvement to the Estimates has been to group interrelated programs within single votes. Grouping all programs that are aimed toward achieving the same general purpose in the same vote allows program managers flexibility to respond to minor but important changes in program demands that occur during the year. Under the Financial Administration Act, Treasury Board has the authority to approve reallocation of funds within votes but not between them.[45]

Moreover, descriptions of program objectives in each vote were added, and a second book to accompany the main estimates was prepared, giving detailed breakdowns of expenditures by sub-votes and by standard objects of expenditure. In addition, the overall number of votes was decreased from 214 to 87. Dunn has concluded that "these reforms can be re-interpreted as favouring the executive, since an identified benefit of fewer votes would be to allow Treasury Board and program managers more flexibility in reallocating resources within votes which grouped interrelated programs."[46] In this context, it is noteworthy that the output information required in the ZBB system is not published in the estimates.[47]

Beginning with the 1980 budget, the B.C. government has published a series of background papers to the budget. This supplementary material regularly includes a medium-term economic outlook, medium-term fiscal projections, and a review of B.C. tax expenditures. Other topics, such as fuel taxation, have been addressed periodically. Since 1980, the information in these papers has been updated and expanded, and the overall presentation has improved, though a tax expenditure account has not been published since 1983.

Other public documents related to B.C. financial and budgetary practices include the *Quarterly Financial Report*, the *Annual Report of the Auditor General*, the *Government's Response to the Auditor General's Report*, the *Report of the Comptroller-General* ("interim financial statements"), B.C. financial statements, public accounts, the *Annual Report of the Purchasing Commission* and the *Financial and Economic Review*.

In Nova Scotia the estimates comprise an imposing single volume, containing summaries, expenditure resolutions, revenue estimates, details of both ordinary expenditures and capital expenditures, and recoveries by department and agency. Under the new planning and

budgeting process, which was discussed earlier, a new format in the estimates was started in the 1980/81 fiscal year. The new format kept many features of the old style of presentation. For example, the department detail format was retained, as was the three-column presentation of previous-year "actual," present-year "forecast," and new year "estimates." Also, presentation by vote and division resembled the traditional format. The new format, however, detailed estimates by budget subject rather than by object of expenditure. A "budget subject" is defined as a service or activity selected by management as a focus for evaluation, planning, determining alternatives, and presenting cost-justified funding recommendations.

In his 1982 annual report, the Nova Scotia auditor general stated: "It is my contention that the financial statements of Nova Scotia are unduly complex, and are probably the most difficult to understand in all the provinces in Canada."[48] The auditor general was especially critical of the accounting and disclosure practices concerning capital expenditure and debt retirement, and the use of surplus and reserve accounts. Beginning with the 1983/84 estimates, various expenditures have been reclassified and transferred within the estimates to reflect a new policy for determining the capitalization of expenditures.

In Ontario, since the early 1970s, the government has published its main estimates in several volumes by policy fields. Expenditure plans for the following fiscal year for all the ministries are grouped into the appropriate fields of general government, justice, social development, and resource development. Some information on program description is included, but the data are still primarily presented by a standard accounts classification. The public accounts are published in three volumes. Volume 1 presents the financial statements of the province by each ministry, with schedules of supporting information on revenue, receipts and credits. Volume 2, a supplementary volume, includes the financial statements of provincial Crown corporations, boards and commissions in which the province has an investment, and those that have borrowed from the province or have borrowed from others with a guarantee by the province. Twenty-eight agencies are covered and grouped by ministerial responsibility. Volume 3, also supplementary, contains details of expenditures required by the standing public accounts committee.

Since 1967, Ontario budget statements have included appendices on the economic outlook and details of budget measures, as well as budget papers on various topics such as fiscal policy, tax credits and fiscal arrangements. Ontario does not publish a tax expenditure account, but it has published revenue and expenditure forecasts.

Like the other provincial governments surveyed, Quebec governments have made some efforts at presenting more complete and informative data in their budgets, with a greater focus on programs and policies. Starting in 1971, budget speeches were shortened, but more

information was provided to members of the assembly by including appendices on the economic situation and on the fiscal position of the government. Then, beginning with the 1973 budget, expenditures were presented by various levels and types of detail: supercategory and category, missions, domains, sectors and programs.

Quebec uses a system of categories quite similar to that of the federal government. There are 12 categories, including one for debt service. The other 11 are grouped into 5 supercategories: operating-personnel, operating-other, capital-personnel, capital-other, and transfer payments. The categories of expenditures are grouped into these supercategories to indicate the remuneration of personnel and other expenditures under operating and capital expenditures, and to highlight the sizable amounts of the transfer payments of the provinces.

The estimates are presented by 4 policy fields or missions, 15 domains, 41 sectors and 178 programs. The missions are economic, educational and cultural, social, and governmental and administrative. Thus, for example, within the governmental and administrative mission there are four domains, one of which is protection of persons and property; within this particular domain are four sectors, one of which is public safety; and within this public safety sector are six programs. Budget totals are provided for each level of aggregation, and programs are identified by departmental home.

Only British Columbia and Saskatchewan have published fairly comprehensive tax expenditure accounts along with their budgets (and since 1983 only Saskatchewan). In the other provinces no formal mechanism, such as a tax expenditure or any institutional forum, exists whereby these issues are explicitly and regularly addressed. In Ontario, for example, special interest groups and ministers of line departments make representations to the treasurer which he keeps "on the shelf"; he may draw on these ideas when composing the budget if he has the fiscal room to offer a tax incentive to a group.

For many years now, the budgets of some provinces (such as Ontario and Quebec) have included information — sometimes in tabular form, sometimes buried in the narrative — indicating the estimated revenue effects of tax actions announced in the budget. In effect, these are very incomplete statements on tax expenditures.[49]

The estimates of tax expenditures for British Columbia, published with the 1980 budget, represented the first real effort at such an account by a Canadian province. Saskatchewan followed in 1981 with its own tax expenditure estimates. The B.C. tax expenditure account was not an attempt to evaluate the effectiveness of these special provisions or to suggest reform regarding particular "loopholes." Rather, the purpose was to provide a full accounting of the provincial government's use of tax dollars and to provide a source of information for studying the direction of government fiscal policy. B.C.'s tax expenditure account provided an

estimate of the revenue forgone by the provincial government as a result of special provisions in the tax system (i.e., tax exemptions, deductions, reduced tax rates or tax credits) which cause tax payments for certain individuals, groups, or businesses to be lower than the "normal" level of taxation. From 1980 to 1982 the B.C. tax expenditure account was published regularly and was updated and expanded to include a wider range of special provisions with revenue implications.

Since most provinces in Canada do not have their own forecasting capabilities, they accept the federal forecast. Consequently, an in-year adjustment can seriously disrupt a province's fiscal status. In recent years there have been occasions when finance officials from provinces that do not do their own forecasting have called the Ontario treasury to get Ontario's view as to whether the federal forecast was correct or not.[50] Provinces may also rely on forecasts by the Conference Board, the Atlantic Provinces Economic Council, the Organization for Economic Coordination and Development, and the major banks. Yet, whatever their forecasting capabilities and whatever their sources and internal data, nearly all the provinces publish only short-term economic outlooks. Such economic forecasts usually look back a few years to display recent trends and look ahead just one year. Typically, when provincial budgets look at economic prospects, indicators are given for expected total output, level of investment, employment, unemployment, size of the provincial labour force, consumer price index, and the pace of development in specific sectors of the provincial economy.

Since 1980, the B.C. government has published with its budget a medium-term (three to five years) outlook or forecast. In stressing the need for a medium-term perspective, the government argued:

> Taxation priorities are influenced by the current and prospective strength in the economy after consideration is made of the equity and incidence of various taxes.
>
> A crucial component of budget policy as it relates to both revenue and expenditure is that it should be established within a broader context than just one year. A medium term (three to five year) outlook facilitates a more complete appraisal of the economic and fiscal implications of existing programs and contemplated initiatives.[51]

Under their program-budgeting systems, several provincial governments require that departments and ministries develop multi-year expenditure plans for review and analysis by treasury boards. Some provinces have been doing multi-year expenditure planning since the early 1970s. However, most provincial governments do not include this kind of information in the budgetary documents that they present to the legislative branch. Such fiscal projections are for the internal consumption of the executive branch. The main estimates and other documents tabled in the legislature do not assess future trends of government

expenditure and revenue. Some past trends are commonly provided (usually two to four years back, maybe further),[52] while the fiscal projection is normally for just one year forward.

The 1977 Ontario budget provided multi-year projections documenting the normal growth that could be expected in Ontario's revenues over the following three years, assuming no changes in tax rates and steady expansion of 10 percent a year in the provincial economy. This revenue projection established an upper ceiling on the future growth in spending consistent with achieving a balanced budget by the 1980/81 fiscal year. These medium-term projections were a first in Canadian government budgeting, and subsequent Ontario budgets provided a multi-year plan. The time frame for achieving a balanced budget was revised and extended because revenue growth did not keep pace with the original projections (see Chapter 9).

Since the 1980/81 fiscal year, B.C. budgets have presented a summary of five-year revenue and expenditure projections, based upon their medium-term economic outlook. Budget papers stress quite strongly that the projections beyond the first fiscal year "are not the planned revenue and expenditure of the government. They are estimates of program costs and revenue assuming no changes in program priorities and no adjustments to tax rates or tax expenditures."[53] Furthermore, the forecasts are not to be interpreted as targets for later years. Rather, they are the basis for financial and economic planning, and for greater public accountability.

Summary

This chapter has been largely a descriptive stocktaking exercise, laying out the key formal dimensions of provincial budgeting. This background account suggests that there has been significant reform in executive budget processes. While useful new kinds of documentation have been presented to legislatures, the legislative arena itself has stuck to basic traditional approaches and forums, including somewhat greater leverage than at the federal level in the withholding of supply. Four provinces have partially embraced "value for money" auditing, but the rest have not. Most auditors, however, have undeveloped relationships with the legislature's public accounts committee. Budgets at the provincial level are usually single-event occasions, with the revenue and expenditure budgets being presented simultaneously in the legislature and, in many provinces, being controlled simultaneously in the executive by premier-dominated processes. However, several mini-budgets have been presented, less in any single province than at the federal level but nonetheless enough of them to indicate the impact of inflation and recession politics and Keynesian economics, and to break the serene annual rhythm of provincial budgeting during the period since the late 1960s.

These formal attributes provide the skeleton of provincial budgeting. The flesh, blood and sinew must be added. We do this in the next three chapters by examining provincial political economies, partisan and leadership styles, and budgetary outputs in Chapter 7; countercyclical fiscal policy, political rhetoric, goal setting and electoral and consultative politics in Chapter 8; and restraint budgeting in Chapter 9.

Chapter 7

Provincial Budgeting Dynamics: *Provincial Political Economies and Output Data*

An appreciation of the dynamics of provincial budgeting must be rooted in an initial overall portrait of provincial political economies. Since each of the five provinces examined has a rich history in this regard, the word "portrait," for the purposes of this chapter, is used advisedly. Our intent is to sketch key aggregate features of the provincial political economies in three ways. First, we take note of some basic features of the regional economies involved. Second, we attempt to capture the essential features of the partisan and leadership styles, and the overall approaches since the mid-seventies. Third, we present two looks at budgetary outputs — an aggregate look which on the whole reveals a similar comparative story, and a secondary look where the idiosyncracies of particular provinces emerge in actual decisions. These initial sketches pave the way for the further examination of selected budgetary dynamics in Chapter 8 and restraint budgeting in Chapter 9.

Basic Features of the Regional Economies

There is a vast literature on this subject which we make no attempt to survey here.[1] Tables 7-1 to 7-5 provide the basic data necessary for our purposes. Table 7-1 presents some basic trends in regional disparities. Among the five provinces surveyed here, it shows that on almost all measures used (unemployment rates, personal income per capita, and personal income per capita less transfers to persons), Nova Scotia and Quebec are consistently below the national norm and Alberta, British Columbia and Ontario are above the norm. Without transfers, Nova Scotia would be even more disadvantaged.

TABLE 7-1 Trends in Regional Disparities, Key Years, 1947–83

Indicator/ Region	1947	1957	1963	1968	1973	1981	1983
Unemployment rate							
Atlantic provinces	4.7	8.4	9.5	7.3	7.9	11.6	15.0
Quebec	2.5	6.0	7.5	6.5	6.8	10.3	13.9
Ontario	1.8	3.4	3.8	3.5	4.3	6.6	10.4
Prairies	1.4	2.6	3.7	3.0	4.7	4.5	9.7
British Columbia	2.8	5.0	6.4	5.9	6.7	6.7	13.8
Canada	2.2	4.6	5.5	4.8	5.5	7.6	11.9
Personal income per capita[a]							
Newfoundland		0.54	0.56	0.62	0.64	0.65	
Prince Edward Island	0.55	0.51	0.59	0.64	0.70	0.68	
Nova Scotia	0.80	0.74	0.76	0.77	0.80	0.79	
New Brunswick	0.72	0.65	0.67	0.70	0.73	0.72	
Quebec	0.85	0.88	0.89	0.89	0.89	0.93	
Ontario	1.16	1.20	1.17	1.17	1.14	1.08	
Manitoba	1.02	0.94	0.94	0.97	0.96	0.94	
Saskatchewan	0.88	0.78	0.98	0.85	0.91	1.01	
Alberta	1.06	0.99	0.98	1.00	1.00	1.11	
British Columbia	1.17	1.22	1.12	1.08	1.11	1.09	
Canada	1.00	1.00	1.00	1.00	1.00	1.00	
Personal income less transfers to persons, per capita[a]							
Newfoundland		0.51	0.52	0.53	0.54	0.54	
Prince Edward Island	0.52	0.47	0.53	0.58	0.64	0.60	
Nova Scotia	0.77	0.71	0.73	0.73	0.76	0.74	
New Brunswick	0.69	0.61	0.62	0.66	0.68	0.65	
Quebec	0.85	0.88	0.88	0.88	0.88	0.89	
Ontario	1.18	1.22	1.19	1.19	1.16	1.10	
Manitoba	1.01	0.94	0.94	0.96	0.96	0.94	
Saskatchewan	0.86	0.75	0.98	0.84	0.91	1.00	
Alberta	1.06	0.99	0.98	1.01	1.01	1.15	
British Columbia	1.18	1.19	1.11	1.08	1.11	1.10	
Canada	1.00	1.00	1.00	1.00	1.00	1.00	

Source: Appendix to this study, available from School of Public Administration, Carleton University.

a. Relatives, Canada = 1.00.

Table 7-2 shows alternative measures of regional income disparities from 1971 to 1981. In particular, these measures distinguish personal income from household income. In relation to these measures, Nova Scotia generally remains steady over the decade; Quebec, B.C and Ontario experience a mixture of gains and declines; and Alberta increases significantly.

Table 7-3 provides a breakdown of the composition of sectoral employment by province. It shows the higher percentage of primary

TABLE 7-2 Alternative Measures of Regional Income Disparities, 1971 and 1981 (Canada = 100)

Index	Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Vuw(%)[e]
Market income per capita[a]	1971	55.1	53.6	69.3	66.5	88.5	119.6	93.2	79.1	98.3	109.6	0.285
	1981	53.8	57.5	69.6	63.2	90.7	110.5	92.7	98.7	114.1	110.3	0.274
Personal income per capita[b]	1971	63.7	63.4	77.5	72.2	88.7	117.0	94.0	80.3	99.0	109.0	0.232
	1981	65.1	67.4	76.8	70.4	93.6	107.4	93.1	99.7	110.3	108.7	0.211
Personal disposable income per capita[c]	1971	68.1	68.0	79.8	75.0	89.6	114.8	95.5	85.5	99.6	108.6	0.203
	1981	67.3	71.6	78.7	72.3	90.8	108.3	97.9	104.4	109.0	108.4	0.195
Personal disposable income per household	1971	90.1	76.2	84.9	84.4	94.1	111.1	91.6	82.8	97.6	99.4	0.136
	1981	87.6	79.2	83.0	79.7	91.5	107.0	95.5	103.4	109.4	101.5	0.130
Real personal disposable income per household[d]	1971	89.9		82.7	89.3	96.2	106.3	96.4	88.3	97.2	89.8	0.102[f]
	1981	81.5		82.5	83.7	94.9	103.2	101.1	111.4	109.3	90.9	0.125[f]

Source: Robert L. Mansell and Lawrence Copithorne, "Canadian Regional Economic Disparities: A Survey," in *Disparities and Interregional Adjustment*, volume 64 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada. Toronto: University of Toronto Press, 1985. Table 2.2.

a. Defined as wages and supplementary income, net unincorporated business income, net farm income, and interest, dividend, and miscellaneous investment income, all calculated on a per capita basis for the regions as a percentage of that for Canada.
b. Personal income is market income plus transfers to individuals.
c. Personal disposable income is personal income less personal income taxes and contributions to social security.
d. Regional price indexes calculated from intercity partial consumer price index (Winnipeg = 100, May 1971) and from city consumer price indexes.
e. Vuw is the value of the unweighted coefficient of variation.
f. The values for this measure exclude P.E.I. and hence cannot be compared to those for the other income measures.

TABLE 7-3 Employment by Province, December 1983

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
					(percent)					
Agriculture	0	11.3	1.8	2.5	2.7	3.0	8.4	19.9	7.9	2.5
Other primary industries	7.3	6.3	5.2	3.7	1.5	1.0	1.4	2.8	6.0	4.3
Total	7.3	17.6	7.0	6.2	4.2	4.0	9.8	22.7	13.9	6.8
Manufacturing	9.7	7.5	12.2	13.2	20.7	23.1	12.3	5.1	8.3	12.9
Construction	5.5	7.0	6.1	5.3	4.3	4.4	4.5	5.6	6.5	5.7
Transportation	11.5	7.5	7.9	11.1	7.7	7.2	9.5	6.7	8.9	9.5
Trade	18.2	17.0	19.2	20.2	17.9	17.0	18.4	18.1	17.5	19.3
Finance, insurance and real estate	4.2	2.1	4.6	3.7	5.6	6.4	5.0	4.9	5.2	6.2
Service	31.5	30.0	34.1	32.9	32.4	31.6	32.1	28.8	32.6	33.4
Public administration	12.1	11.3	9.1	7.4	7.2	6.3	8.4	8.1	7.1	6.2
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Canada, *The Labour Force*, Dec. 1983.
Note: Numbers may not add up, due to rounding.

resource employment in Alberta, and the manufacturing prominence of Ontario and Quebec. It also shows the almost uniformly high percentage of employment in the service sector in all provinces. The table uses 1983 data only. Of even more interest, therefore, even though it does not cover Nova Scotia, is the information supplied by the 1984 Economic Council study of western Canada. Table 7-4 shows changes in the distribution of the labour force in various industries between 1961 and 1981. It shows four trends of importance. First, it confirms the growing importance of the service sector (defined more broadly than in Table 7-3). Second, it shows a marked decline in the importance of the natural resource sector to about half what it was in 1961. The Economic Council summed up this development as follows: "By 1981, the West was no more dependent on resources for employment than was central Canada in 1961. At that time, few thought of central Canada as being vitally dependent on natural resource industries for jobs."[2] A third finding was that the Prairies have narrowed their "manufacturing employment gap" with central Canada. However, this is not due to the growth of resource-associated manufacturing in the West but to the decline in the importance of manufacturing in Ontario and Quebec. Fourth, the study concluded that "all regions have become significantly less dependent on external trade" and that, as a corollary, "the degree of sensitivity to the vagaries of international markets, in the West, as well as in the rest of Canada, has fallen markedly."[3]

Finally, we note the importance of the data in Table 7-5, which shows interprovincial migration flows. These data for the 1971–80 decade show significant losses for Quebec, some loss for Ontario, major gains for Alberta and B.C., and a small gain for Nova Scotia. These basic demographic patterns are obviously of some importance in interpreting budgetary dynamics, since they imply different rates of pressure and impact on particular program elements — from basic social infrastructure and services to welfare payments.

Dominant Features of Political Regimes and Leadership Styles

There is never a wholly even match between polity and economy. Obviously, the two systems of decision making are linked in many ways, but there is always a gap between the two as both engage in a constant process of mutual evaluation and reinterpretation, and as public and private power are exercised in major and minor ways. The dominant features of particular political regimes and the leadership styles of premiers are not easy to capture in summary form, nor do they lead inexorably to clear budgetary outputs. This is because they involve a complex mixture of partisan political party configurations, core bases of political support, entrenched regional self-images that are partly accu-

TABLE 7-4 Distribution of Labour Force in Various Industries, Central and Western Canada, 1961 and 1981

	Central Canada		Western Canada			
	Que.	Ont.	Man.	Sask.	Alta.	B.C.
			(percent)			
Natural resources						
1961	11.8	9.9	20.2	39.5	26.0	10.2
1981	4.7	4.6	10.4	22.7	13.7	7.3
Manufacturing						
1961	27.2	27.5	13.9	4.8	8.8	20.2
1981	22.4	23.8	14.1	6.2	9.0	14.8
Construction						
1961	7.4	6.6	6.2	5.5	7.8	6.5
1981	5.2	5.7	5.3	7.0	10.8	7.9
Services						
1961	53.7	56.1	59.7	50.3	57.3	63.2
1981	67.7	65.9	70.2	64.1	66.5	70.1
Total						
1961	100.0	100.0	100.0	100.0	100.0	100.0
1981	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Council of Canada, *Western Transition* (Ottawa: Minister of Supply and Services Canada, 1984), p. 29.

TABLE 7-5 Interprovincial Migration Flows[a] (annual average, 000s)

	In-Migration		Out-Migration		Net Migration	
	1961–71	1971–80	1961–71	1971–80	1961–71	1971–80
Nfld.	7.7	11.4	11.1	12.5	−3.5	−1.1
P.E.I.	3.7	4.6	4.3	3.9	−0.6	0.7
N.S.	22.1	24.0	26.5	22.7	−4.4	1.3
N.B.	18.5	20.9	23.0	18.4	−4.5	2.5
Que.	41.4	32.2	55.7	56.6	−14.3	−24.4
Ont.	104.2	95.7	80.7	102.7	23.6	−7.0
Man.	27.4	27.0	33.8	34.5	−6.4	−7.5
Sask.	22.8	26.6	35.2	29.4	−12.4	−2.8
Alta.	52.0	81.5	49.0	61.7	3.0	19.8
B.C.	62.0	73.7	42.7	54.8	19.3	18.9

Source: Canada, Department of Employment and Immigration, *Labour Market Development in the 1980s* (July 1981), p. 29.

a. For all adults and children.

rate and partly false, and the personalities and personal agendas of the premiers themselves. However, budgetary outcomes and processes cannot even be simplistically understood without such an attempt. Accordingly, we shall survey each province in this regard, focussing on the years since the mid-1970s.

Before beginning these provincial profiles, it is important to point out some general features of the provincial party systems.[4] Generally speaking, provincial governments are majority governments, often with very large majorities relative to federal politics. Moreover, it is very common in provincial politics for one party to have a long monopoly of power. The party systems and patterns of electoral competition, however, are more individual to each province.

Nova Scotia has a two-party system involving a long-standing struggle, with minimal ideological differences, between the Liberal and Conservative parties. Quebec has a two-party system also, but it has undergone some fundamental changes in the nature of the competing parties. The current system involving the Liberals and the Parti Québécois is ideologically distinct, both in terms of the role of the state and the federalist-separatist issue. Ontario has the only provincial three-party system in the country, with the Liberals, Conservatives, and the New Democratic Party (NDP). It has had long-term one-party dominance, but with minority governments in 1975–77 and 1977–81. Alberta has had a one-party-dominant system for about fifty years, with the Conservatives replacing Social Credit as the dominant party in the early 1970s. Furthermore, Alberta has a history of a high level of one-party dominance in legislative representation. British Columbia is an ideologically polarized community with a two-party system involving the Social Credit party and the NDP. It, too, has experienced long-term one-party dominance in government.

The impact of party systems and of particular patterns of electoral competition on provincial budgeting is not clear. Unfortunately, while there is some research on party systems and aggregate levels of provincial spending, there is little analysis that addresses the politics and process of budgeting. However, we can point out some important dimensions that should be considered and offer some tentative propositions. The degree to which a political party has a dominant majority in the legislature (e.g., Alberta governments) may affect the scrutiny role of the legislative assembly, particularly in regard to question period and the public accounts committee. In large majorities it could be that government backbenchers would not be as influential as in slim-majority or minority situations and that premiers and cabinets would be stronger. Another dimension is "policy contagion" (when the governing party is influenced by or adopts the policy ideas and proposals of opposition parties in order to gain support, to defuse criticism, and to deny potential advantages to opposition forces). This phenomenon could clearly have significant budgetary consequences on both revenue and expenditure. Policy contagion would seem most likely to occur in minority or slim-majority government situations, or where there is little ideological polarization between the party in power and the opposition forces. However, even this phenomenon would be only part of the story. One must ultimately probe each province's system separately.

British Columbia

As noted above, B.C. politics have been heavily polarized on a basic left-right spectrum.[5] Confrontational politics are the norm. In part, the strength of the left is a direct result of the high degree of unionization in the province. There has also been a remarkable degree of partisan political confrontation over the issue of resource exploitation. Given the importance of forestry, minerals and fishing, the partisan debate itself is not surprising. The surprise occurs when one recognizes that even in the 1960s, resources per se were a much smaller part of the employment picture in B.C. than in other western provinces and that they have declined even more since then. The rhetorical place of resources, however, has not declined. The NDP–Social Credit electoral battles of the 1970s were largely over resource exploitation. In part, the salience of resources is a product of the physical beauty of the province, but it is also the product of entrenched tactical politics that were honed to a fine art by W.A.C. Bennett. Bennett derived much political credit from the promotion of major resource projects.

These large projects promoted the view of a forward-looking, risk-taking government, but juxtaposed against this partly real and partly mythical image was a dominant norm of fiscal conservatism and a

detailed concern for balancing the books. This can be attributed partly to the origins of Social Credit as a political force suspicious of both government and big capital, and partly to Social Credit's roots in the interior of B.C. among small-business owners, including W.A.C. Bennett himself. Bennett's dominance of the B.C. government in the 1950s and 1960s was not just the usual situation of the premier being the leader of his party; it extended to a strong predilection for detailed budgetary and financial control by Bennett personally. Dunn's analysis quotes Bennett's biographer, David Mitchell, on this point:

> Such detailed accounting measures gave Bennett tremendous power and manoeuverability, especially since these financial statements were for his eyes only. He was fond of saying "information is power." As Premier and Minister of Finance, he possessed monopoly control over the financial information relating to his various government departments and agencies. He never made the information public nor did he share it with his colleagues. Consequently, he usually knew far more about the finances of individual government departments than the ministers in charge.[6]

Bennett was also known for his capacity to squirrel away funds in special accounts so as to be able to argue that he practised balanced budgeting and would not burden future generations with debt.

Even though times have changed, the Bennett legacy is of continuing importance in three respects. First, his son, Bill Bennett, who became premier in 1975, evokes both of these images and practices, and has the core of his political support in the same small-business political constituency. Second, even Dave Barrett's NDP government practised a highly premier-centred budgetary control, since Barrett was both premier and finance minister. Third, British Columbia was one of the last provinces to establish even a rudimentary system of cabinet organization and support staff, in greater recognition of the collective features of cabinet government.

While this configuration of political characteristics in British Columbia remains important, it is not a wholly reliable predictor of budgetary outputs. Obviously, the province has been the centre of national attention because of the comprehensive restraint program instituted after the 1983 election. The aggressiveness of the program was caused by a variety of factors, which congealed in the midst of a deep recession that hit the B.C. economy hard. These factors included the desire of Premier Bill Bennett to put his own decisive imprint on B.C. history; a genuine concern that resource markets would be in a long-term state of decline unless they were made more competitive; and strong business pressures of varying kinds, made cohesive by the sheer depth of the recession and the cumulative impact of the neo-conservative critique of government. In Chapters 8 and 9, we shall obtain a

somewhat more practical appreciation of what this strategy of restraint means in the short term and what it means in relation to previous developments in budgeting in B.C.

Alberta

Several published accounts have established the central focus of the Lougheed era in Alberta.[7] In public policy terms, it was to mobilize the Alberta government to undertake a series of policy initiatives that would diversify the province's economy out of its dependence on non-renewable resources.[8] The increasing terms of the trade value of oil and gas (which began before 1973 but escalated because of the embargo of the Organization of Petroleum Exporting Countries in 1973) provided the additional leverage and, in Lougheed's view, the strategic and historic moment of opportunity to carry out the strategy. In federal-provincial terms, Lougheed's view was forged in his brief opposition days, when his constant line of attack against the long-entrenched Social Credit government was its passivity vis-à-vis the federal government, especially on energy and resource matters. In terms of the core support of the emerging Conservative party, analysis shows clearly that it was rooted in the growing, essentially urban, professional engineering and technical personnel attached to the oil and gas industry and to related service sectors.

Although the oil industry was the dominant single interest, Alberta's budgetary concerns in the early 1970s cannot be explained in this context alone. As Table 7-5 showed, Alberta was beginning to feel the effects of the net in-migration of people and the pressure this put on the demand for basic services. Initial decisions taken in 1972 to change the statutorily frozen royalty structure of the oil and gas industry were partly based on the need for more revenue to implement these increased social needs, many of which were first reflected at the municipal level.

The first political result of the Lougheed strategy was the achievement of the continuation of one-party dominance. However, in terms of the general purposes of this chapter, three aspects of Alberta budgeting deserve an initial focus: Lougheed's personal involvement in the process; the federal-provincial battles over energy revenues (given, as we see in the next section, that resource revenues amounted eventually to almost half of Alberta's revenues); and the presence of the large and highly visible Alberta Heritage Savings Trust Fund.

Lougheed has been an extremely active participant in the budget process not only in an overall sense but in the realm of details as well. He dominates the cabinet. Although successive provincial treasurers have been important figures in Lougheed cabinets, the premier, through his personal power base and his chairmanship of the priorities and planning

committee of cabinet, has been by far the most dominant political force. The priorities committee, like the federal Treasury Board, functions as the forum for detailed haggling. As its name implies, however, it also sets priorities — a function the federal board does not have.

Lougheed's detailed interest in budgeting decisions flows from a deeply ingrained concern about how to pay for programs, as well as from his faith in a business-oriented approach to management. His worry about Alberta's past boom-and-bust vulnerability as a resource economy has also affected his approach to budgeting. For example, he paid particular attention to distinguishing between capital and operating budgets and built in separate processes for considering these items, which have different intergenerational issues. Of course, the importance of large resource development projects in the Alberta economy also forces such a concern. Lougheed also insisted on the practice of never explicitly linking an expenditure program with a specific revenue source. This arose in part out of the memory of the previous Social Credit regime, which specifically assigned about one-third of oil and gas revenues to a municipal grants program and thereby ran into great difficulty.

A number of factors therefore combine to make Lougheed a budgetary activist. When individual ministers and officials present their expenditure proposals to the priorities and planning committee, Lougheed asks detailed questions and is a tough critic who knows a great deal about individual programs. On the revenue side, his underlying credo from the beginning has been, as we saw earlier, to increase and maximize the rents due to the province as the owner of a depleting resource. His 1972 initiative to revise the oil and gas royalty system — an initiative that angered the petroleum industry — was based on such a concern. However, it was also based on other fiscal requirements of the initial Conservative mandate. These included major changes to meet promises to improve the fairness of the municipal property tax system.

In the intergovernmental realm of budgeting, Lougheed naturally enough focussed his political energies on protecting and enhancing Alberta's share of resource revenues and its control over the management of resources. This led to several pitched battles with the Trudeau Liberals, over the deductibility of royalties in 1973–74, over pricing from 1975 to 1978, and over specific projects such as Syncrude, and later Alsands and Cold Lake; and to disputes with the short-lived Clark government over its 1979 energy budget, and with the Liberals over their 1980 National Energy Program. Under the National Energy Program, Ottawa imposed several new energy tax and pricing measures. Thus, there has been budgetary conflict, though it cannot be viewed as fiscal policy conflict per se. If there has been a basic macroeconomic policy difference expressed by Alberta in recent years, it has been much more than Premier Peter Lougheed's frequent criticism of monetary and

interest rate policy. Alberta has recently expressed a desire to collect its own personal income tax. It already collects its own corporate taxes. The addition of personal taxes would broaden its overall policy tool kit.

Finally, the Heritage Fund has important budgetary implications both within Alberta and with other governments.[9] The fund was established in order to accumulate a pool of capital so that a portion of the revenues from non-renewable resources could be utilized to benefit future generations of Albertans. This central idea of intergenerational equity was also an appeal to longer-term efficiency in that it was intricately linked to the Lougheed government's commitment to diversify the Alberta economy and thus break away from its historic experience of boom-and-bust cycles of resource dependence. Some of the fund was also to be utilized for general quality-of-life improvements that the province could not otherwise afford. It could also help provide an alternative source of government revenue in the future, if one were needed. Although the fund was initiated by the Lougheed Conservatives, it is worth stressing that the federal government (through then Finance Minister John Turner) strongly urged Alberta to establish such a fund so that the revenues would not distort the equalization of revenue formulas that governed intergovernment finances.

It must be stressed that only about 30 percent of the non-renewable resource revenue has gone into the fund. The rest has gone into the general coffers of the Alberta government. Such general revenues, as we shall see below, have amounted to over 50 percent of Alberta's revenues and have thus contributed to Alberta's capacity to have lower tax rates than other provinces and no sales tax. The fund grew sixfold, increasing from \$2.2 billion in 1977 to \$13.1 billion in 1982. Although it did not initially attract great national attention, it quickly became the focal point for political and economic controversy at the national level and within Alberta. At the national level, despite recognition that the concepts behind the fund were sensible and valid, it became a visible symbol of the westward transfer of wealth. This was especially the case in 1979 and 1980, when projections began to appear which showed the fund reaching the level of over \$150 billion by the early 1990s. Alberta viewed the growing fund as the just desserts of its long historic wait to shed its dependence on central Canada. The federal government saw it as demonstrating that something was wrong with the national distribution of wealth, a view easily reinforced by the partisan elements of the conflict, by the federal government's growing deficits, and by the projected growth of the fund. Thus, fundamental interests clashed, since the federal and Alberta governments both saw the same pool of petro-dollars as a potential tool of economic development. The notion of what "economic development" actually meant, however, was left to further debate. Within Alberta, despite massive political support for the overall purposes of the Heritage Fund, there was growing criticism about

whether the fund was really being used to diversify the provincial economy or was merely being used for relatively safe investments. Later, in the midst of the 1982 recession, it came under pressure in a different way, in that criticism centred on why the fund was not being used to help Albertans who were hit hard by the recession. In 1982 funds were, in fact, used for such purposes and the proportion of revenues that went into the Heritage account was reduced to 15 percent for a two-year period.

Space does not allow a full examination of the Heritage Fund dynamics, but two further points about the politics of the fund deserve mention. First, some of the "have not" provincial governments, especially in Atlantic Canada, became the recipients of loans from the fund, thus setting up a series of bilateral fiscal relations which, along with the growth of the fund, further contributed to Ottawa's concern about its economic management powers. Second, the lending/banking functions of the fund attracted increased criticism by Alberta businessmen, a significant number of whom saw it as not much different from the eastern-dominated banks. Still others simply ignored it. Neither of these situations was propitious for a government whose political support resides at its core in the small-business sector.

Quebec

Like other features of political life in Quebec, budgeting must initially be seen according to the way that recent Quebec premiers have seen Quebec's place in Confederation.[10] In the context of the Quiet Revolution as a whole, the period since the early 1960s has been characterized at one level by a strong preference to use the state as the prime vehicle for the advancement and mobility of French Canadians because, initially at least, the avenue of private sector advancement was effectively closed off because of domination by English Canadians. The influx of a young, white-collar professional class was accommodated by the state, and a stronger state was developed so that Quebec could deal from a position of strength with the rest of Canada (which was represented primarily by the federal government). At another level, the underlying budgetary implications of Quebec politics involved a kind of continuing contest in the cost-benefit analysis of fiscal federalism.[11]

All of the above were practised in various ways by successive premiers. Budgetary implications showed up in the Lesage and Johnson eras over the principle of opting out of federal-provincial conditional grants in lieu of additional tax points, and in pitched battles over the design of and access to funds of the pension plans forged in the mid-1960s.[12] The degree of practice took on new forms of intensity with the arrival in power of the Lévesque Parti Québécois (PQ) government, which was committed to separatism.

It is easy to slip into stereotyped views of the Lévesque era, but the implications of the PQ's overall style are decidedly mixed. The party characterized itself as a social democratic government, and there is evidence of the mutually supportive relationship between it and white-collar unions, especially public service unions.[13] But key PQ ministers and officials were former government bureaucrats; hence, they easily styled themselves as "good managers." Indeed, following the defeat of its May 1980 referendum on sovereignty association, the Parti Québécois fought the subsequent election primarily on its capacity to be a good manager. The conveying of a managerial ethos, however, was also necessary in the late 1970s and early 1980s because the newer generation of young people, faced with high levels of unemployment and influenced in general by the overall business and neo-conservative critique of government, and in particular by Quebec's high income tax, were less enamoured of statism. Not only could future levels of state expansion not be confidently foreseen, but many younger Québécois had come from homes in which family members had progressed in the private sector, in part under the aegis of tough language laws.

The Lévesque era's practice of the fine art of fiscal "cost-benefititis" was not always as stridently practised as in the late-1970s pre-referendum period, when Quebec and the federal Liberals' Canadian Unity Information Office carried out pitched propaganda battles over the net effects of federal fiscal and expenditure benefits. For example, in the heated controversies over energy revenues and pricing, Quebec sided with Alberta on constitutional grounds; but it could do so knowing that it was benefiting from the federal Liberals' overall plan, which favoured energy-consuming provinces. In this controversy, which involved several billions of dollars, the Lévesque government practised the fiscal art of studied silence.[14]

In the more particular terms of internal cabinet power, the evidence suggests that Premier René Lévesque has not been as active a budgetary participant as Premiers Bill Bennett and Peter Lougheed have been.[15] Lévesque is known to be well briefed on budgetary matters, but several factors suggest that he is more selective in his budgetary interventions and exercises of power. First, perhaps in somewhat the same way as Prime Minister Trudeau, Lévesque was undoubtedly preoccupied with the larger politics of sovereignty association and hence, at first glance at least, with a non-economic agenda. Second, in Jacques Parizeau, Lévesque had a finance minister who had a significant power base of his own, both as an economist and as a politician. Parizeau was finance minister from 1976 to 1985, and he also held the Treasury Board portfolio until 1981, when Lévesque assigned it to another minister, ostensibly on the grounds that Parizeau had put the previous budget together too hastily.

Ontario

The ethos of Ontario government of recent decades is one that exemplifies continuity, stability and self-portrayed managerial soundness, all forged at the anvil of one-party dominance but threatened just enough by significant political competition from two opposition parties of about equal strength and significant presence in the legislature.[16] In an intergovernmental fiscal context, this confident continuity has allowed the successive Ontario premiers, Frost, Robarts and Davis, to present Ontario, at least until the late 1970s, as the decisive engine of the economy and one that was capable of being generous to other provinces, since equalization payments could be portrayed as coming primarily from Ontario taxpayers.

Premier William Davis's tenure, at one level, continued the consummate fostering of this ethos. As we shall show in Chapter 8, Ontario budget speeches in the Davis era were like a soothing recounting of history. As Chapter 9 will show, Ontario has been the most effective practitioner of budgetary restraint, without preaching about it; restraint has been presented just as normal good management. The evoking of good management and the practice of low-key consensus politics has been very much in the Davis mould. On his recent retirement, it is of considerable importance to note that almost all the immediate assessments of the Davis era, including his own, stressed not what he did but *how* he did it.

At another level, however, the political tactics behind Davis's budgetary politics do not conform quite so easily to this dominant ethos. As in British Columbia, Alberta and Quebec, domestic provincial politics and economics and federal-provincial/interregional factors have inevitably been intertwined. As data in the first section of this chapter showed, there were indications in the late 1970s of a decline in manufacturing in the Ontario economy. At the same time, energy pricing shocks and the transfers of wealth to western Canada, especially Alberta, affected not only the two treasuries but also the Ontario economy, especially in terms of how fast domestic oil and gas prices should track the higher world price. In the mid-1970s reasonable consensus was possible because prices rose more gradually, but in 1979 and 1980 the Davis government took a very different energy/budgetary approach. When it believed that its partisan brothers in the Clark Conservative government of 1979 were going to raise prices too swiftly and tax Ontarians too heavily, the Davis government engaged in a very tough public round of criticism, and in 1980, when the Liberals adopted a policy closer to that of Ontario, the Davis government became a practitioner of the art of tactical silence.[17]

In the context of internal cabinet dynamics, Ontario parallels Quebec more than Alberta and British Columbia in that Davis was a more

selective participant in the budgetary process. It is of some importance to note, however, that Ontario's fiscal policy expertise in the Treasury and Economics Department was viewed by Ontario officials and by other provincial budgetary officials as being virtually the only core of expertise that could challenge the federal Department of Finance. Ontario's confidence in its expertise and in its role as Ottawa's fiscal policy critic will be more apparent in our analysis in Chapter 8.

Nova Scotia

The style and the practice of budgeting in Nova Scotia befits the fact that Nova Scotia is a moderately "have" province located in a "have not" region. There is only limited room for manoeuvre and a strong sense of relative dependence, not only on federal transfers but also on other federal subsidies. Rather than producing polarized party competition, the underlying structure of the economy has produced the fairly steady practice of even-handed two-party politics between the Liberals and the Conservatives. Although there have been periods of one-party dominance, there have been reasonable alternations in power since the 1960s with the Stanfield, Smith, Regan and Buchanan governments.

These overall features have prompted Peter Aucoin to characterize Nova Scotia's political culture as populist, parochial, partisan and pragmatic.[18] While these categories could arguably be applied to other provinces as well, the proof of their overall general applicability is found in comparisons with the brief accounts of the other provinces. For most of the 1970s, Nova Scotia resisted all demands to modernize its internal budgetary process. Until the late 1970s, there was no need even to be seen exuding the trappings of modern budgetary management. Line ministers held sway on the details of the judicious dispersal of funds on a regional basis within the province, carefully watched over by the premier, not as a self-styled manager but as a prudent, careful politician.

The only partial departure from this sense of careful stewardship and limited manoeuvrability could perhaps be found in Nova Scotia's strategy on energy and offshore oil and gas development. Here, the province practised somewhat greater rhetorical and tactical aggressiveness, vis-à-vis Ottawa, to maximize its potential for being the main service and supply base for the offshore industry. Even here, however, Nova Scotia had only a small margin of manoeuvrability. While showing that it deserved a good deal from Ottawa, it had to avoid becoming so strident as to lump itself with the tactics of Newfoundland's Peckford government or to threaten the revenues and transfer payments that ultimately benefited, or at least protected, the Nova Scotia economy from a deeper slide into a "have not" status.[19]

There is clearly a danger in attempting to present the above five stylized portraits in a bare handful of paragraphs. We intend them as only

one form of evidence, which should be placed alongside the other dimensions — not only the sets of data with which this chapter begins and ends but also the issues raised in Chapters 6, 8 and 9. Nevertheless, the portraits are part of the evidence, because governments do take on dominant characteristics, both self-styled and as perceived by others. These tend to congeal in ways that only partly reflect budgetary reality. With this in mind, we shall proceed to two overall looks at budgetary data.

Revenue and Expenditure Data: A First Look at Trends and Outputs

Examination of the revenue and expenditure budget trends for the provinces reveals both striking similarity and divergence. First, we shall measure the relative size of provincial governments in terms of revenue and expenditure as a percentage of gross provincial product (GPP). All provincial governments have grown markedly over the period (see Table A-1 in the Appendix) and to a much greater extent than the federal government. This holds true both for revenues and expenditures. Nevertheless, there remain substantial differences across provinces, the size of the largest governments in GPP terms (Newfoundland and Prince Edward Island) being more than twice that of the smallest (Ontario and Alberta). There appears to be a rough inverse correlation between provincial governmental size and the wealth of the province. This pattern may reflect the federal government's underwriting of provincial expenditure functions or major components of functions and the general-purpose transfers made to the poorer provinces.

In Alberta, government revenues have exceeded expenditures by a wide margin since the oil price increase of 1973 (Tables 7-6 and 7-7). The province experienced surpluses (when measured in this fashion) sporadically before that time. Saskatchewan and British Columbia are the only other provinces in which revenues exceed expenditures with any degree of regularity.

Based on either the revenue measure or the expenditure measure, the major growth in the relative size of provincial governments occurred prior to the middle of the 1970s. Subsequently this growth either dropped noticeably or ceased completely. For example, Ontario's government expenditures relative to the provincial economy peaked in 1975/76 and declined slightly but quite steadily since then (Table 7-7). On this basis, budget restraint in Ontario might be dated from 1975/76.

The revenue systems of the provinces are characterized by considerable diversity (Table 7-6). First and most obvious are the differences in the amounts of revenue generated. In per capita terms, Alberta's revenues are more than 50 percent above those of the next highest province and approximately twice those of the lowest four provinces. This differ-

TABLE 7-6 Provincial Government Revenues, 1960–82

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Alberta											
Total revenue											
% of GPP			10.5	11.1	11.2	11.7	12.4	11.8	11.9	14.1	15.0
Per capita constant $	478	407	425	461	470	506	562	559	561	676	718
% of total revenue											
PT				6.2	6.0	5.8	7.3	9.2	12.1	11.4	13.2
GS											
OG											
ROII	4.9	5.8	5.0	4.1	4.0	3.7	4.0	4.6	4.0	6.8	6.9
TROS								80.5	78.0	80.4	78.5
TT	28.3	32.7	32.0	23.8	22.8	18.5	17.2	19.5	22.0	19.6	21.5
British Columbia											
Total revenue											
% of GPP			10.3	10.1	10.3	10.5	11.2	11.4	11.6	13.1	14.4
Per capita constant $	427	422	439	443	452	479	532	541	540	621	681
% of total revenue											
PT				8.0	8.1	8.7	10.8	13.2	17.2	15.6	15.0
GS	24.1	22.4	21.7	22.3	22.7	23.4	23.2	21.2	20.2	17.2	16.5
OG											
ROII	0.3	0.4	0.4	0.5	0.4	0.2	0.8	0.8	0.9	2.6	3.3
TROS								84.6	84.5	82.5	83.8
TT	33.6	36.2	35.6	18.8	18.0	15.5	15.7	15.4	15.5	17.5	16.2

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Alberta												
Total revenue												
% of GPP	15.5	15.6	15.2	16.0	19.5	19.1	21.1	23.8	25.3	23.4	22.8	23.1
Per capita constant $	749	775	803	1,002	1,383	1,303	1,389	1,607	1,802	1,789	1,764	1,716
% of total revenue												
PT	16.0	14.9	16.0	14.2	10.8	9.5	9.4	9.9	9.0	9.4	9.8	11.9
GS												
OG	20.6	21.3	22.9	29.5	43.0	47.6	47.0	53.0	52.4	54.9	51.2	45.1
ROII	7.4	7.4	6.4	5.7	5.3	6.4	7.7	7.7	9.9	11.8	13.9	17.2
TROS	78.8	77.1	79.7	80.4	82.9	86.5	86.8	90.2	90.8	91.7	92.1	90.1
TT	21.2	22.9	20.3	19.6	17.1	13.5	13.2	9.8	9.2	8.3	7.9	9.9
British Columbia												
Total revenue												
% of GPP	15.6	15.6	15.0	15.4	16.5	16.7	17.6	18.1	17.6	18.3	17.6	18.5
Per capita constant $	721	748	768	871	912	853	911	951	950	1,031	966	979
% of total revenue												
PT	17.1	16.0	16.8	17.4	17.2	19.1	17.7	20.2	22.8	19.0	20.1	23.0
GS	14.5	15.0	14.9	14.7	13.8	13.6	16.4	16.2	12.8	10.3	10.8	14.2
OG	2.8	2.8	2.5	2.1	2.9	2.6	2.6	5.4	3.8	4.5	3.0	1.7
ROII	4.1	4.2	4.6	4.3	5.2	4.1	3.7	4.3	5.0	5.6	6.9	6.8
TROS	81.4	81.2	83.3	85.1	82.7	81.5	81.3	82.9	83.8	84.2	84.1	86.1
TT	18.6	18.8	16.7	14.9	17.3	18.5	18.7	17.1	16.2	15.8	15.9	13.9

TABLE 7-6 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Manitoba											
Total revenue											
% of GPP			8.7	8.9	9.0	9.7	10.6	11.8	13.3	13.5	15.6
Per capita constant $	274	278	295	316	320	356	395	445	514	535	614
% of total revenue											
PT				11.3	11.1	10.8	12.2	12.6	13.7	14.9	14.9
GS									10.3	14.1	12.5
OG											
ROII	8.5	9.2	8.4	7.9	6.8	5.5	4.9	3.9	3.2	3.8	5.4
TROS								61.8	65.4	70.2	70.9
TT	48.0	47.5	44.6	30.7	31.5	34.1	31.1	38.1	34.6	29.8	29.1
Newfoundland											
Total revenue											
% of GPP			17.7	20.1	19.9	21.8	22.6	21.9	26.2	26.4	27.6
Per capita constant $	336	331	317	387	394	456	489	491	588	621	653
% of total revenue											
PT				2.8	2.8	2.8	3.7	4.6	5.1	5.3	6.4
GS	11.0	12.8	15.2	13.3	13.5	12.8	12.2	12.4	12.6	13.4	12.2
OG											
ROII	0.6	0.6	0.7	0.5	0.3	0.2	0.2	0.4	0.3	0.8	1.3
TROS								43.5	38.3	43.5	42.3
TT	69.5	66.0	62.9	59.9	60.1	60.1	57.3	56.5	61.7	56.5	57.7

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Manitoba												
Total revenue												
% of GPP	17.8	17.5	18.3	17.5	17.6	18.5	19.3	19.2	18.7	19.6	19.4	19.2
Per capita constant $	706	705	774	815	820	821	836	814	808	869	842	826
% of total revenue												
PT	17.5	16.8	16.7	16.8	18.2	19.3	18.7	19.5	22.0	18.2	18.7	20.8
GS	10.3	10.5	11.4	12.4	12.8	12.2	11.7	11.9	8.6	10.9	10.6	10.6
OG	0.1	0.1	0.1	0.1	0.8	0.6	0.5	0.6	0.6	0.6	0.6	0.6
ROII	7.5	6.8	7.2	6.7	6.6	6.4	6.7	7.3	8.7	9.6	9.5	10.5
TROS	68.3	65.8	67.3	66.1	67.3	63.6	65.6	64.7	65.7	62.8	63.3	66.9
TT	31.8	34.2	32.7	33.9	32.7	36.4	34.4	35.3	34.3	37.2	36.7	33.1
Newfoundland												
Total revenue												
% of GPP	29.5	33.6	33.7	33.8	35.8	36.2	35.4	36.1	38.5	36.7	38.3	37.3
Per capita constant $	729	826	815	890	955	921	918	955	1,036	1,036	990	959
% of total revenue												
PT	7.4	6.4	7.4	8.3	8.6	11.2	11.5	12.2	12.4	11.4	12.4	13.1
GS	11.9	11.7	12.6	12.8	13.8	15.1	15.0	14.9	12.7	15.6	16.0	15.3
OG								0.0				0.0
ROII	3.3	3.2	3.9	3.6	3.6	4.3	3.7	4.8	4.8	5.2	4.6	5.1
TROS	46.0	42.7	47.7	48.9	48.0	50.6	52.1	52.9	52.2	52.0	53.2	52.8
TT	54.0	57.3	52.3	51.1	52.0	49.4	47.9	47.1	47.8	48.0	46.8	47.2

TABLE 7-6 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Ontario											
Total revenue											
% of GPP			6.8	8.0	7.7	7.8	8.4	9.3	10.1	11.1	12.8
Per capita constant $	286	290	307	373	364	379	418	475	514	575	662
% of total revenue											
PT				10.5	10.9	11.8	14.8	16.2	19.0	17.8	17.2
GS			7.2	12.4	12.7	12.0	11.5	16.1	15.3	14.1	14.6
OG											
ROII	2.8	2.6	2.2	1.9	1.8	1.9	2.3	3.0	3.2	3.7	4.2
TROS								83.1	81.8	82.2	83.1
TT	26.3	26.9	27.1	22.2	19.2	16.9	17.0	16.9	18.2	17.8	16.9
P.E.I.											
Total revenue											
% of GPP			19.7	20.9	20.8	19.8	21.5	23.0	26.7	27.0	30.6
Per capita constant $	296	368	369	400	400	400	447	482	563	598	675
% of total revenue											
PT				1.9	2.2	3.1	3.6	4.1	4.9	4.9	5.0
GS		5.5	9.1	8.0	10.2	10.5	10.7	9.3	8.5	8.5	10.0
OG											
ROII	0.6	0.5	0.9	0.8	0.7	0.7	1.2	2.1	2.7	3.5	2.8
TROS								43.8	42.9	47.3	44.5
TT	59.9	60.3	53.9	51.7	56.4	56.1	55.0	56.2	57.1	52.5	55.6

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ontario												
Total revenue												
% of GPP	14.2	13.8	13.7	13.8	14.4	14.6	15.0	14.7	14.9	15.1	14.6	14.8
Per capita constant $	733	721	746	796	820	765	777	758	776	802	764	763
% of total revenue												
PT	18.8	18.1	18.9	19.2	19.6	19.6	18.8	23.0	25.1	22.9	23.3	26.3
GS	12.9	13.6	14.1	17.8	17.6	13.3	15.3	15.5	12.4	15.3	14.9	14.6
OG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROII	5.2	5.8	5.2	5.4	5.6	5.7	5.5	3.6	3.4	3.6	3.7	3.9
TROS	81.8	80.5	80.7	83.6	82.9	78.8	77.3	82.3	82.8	82.7	82.2	83.3
TT	18.2	19.5	19.3	16.4	17.1	21.2	22.7	17.7	17.2	17.4	17.8	16.7
P.E.I.												
Total revenue												
% of GPP	34.9	37.1	37.0	37.7	40.2	41.4	40.2	41.2	39.2	38.6	40.1	41.1
Per capita constant $	811	862	927	1,042	1,031	1,038	981	1,014	1,018	1,016	1,003	1,018
% of total revenue												
PT	4.1	4.6	5.4	6.5	7.0	8.3	8.1	9.0	11.0	10.7	10.2	10.2
GS	9.2	10.6	11.0	10.9	9.8	9.3	9.3	9.7	8.3	9.3	10.8	10.8
OG		0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
ROII	4.0	3.7	3.3	3.4	4.3	3.4	3.7	3.6	4.1	4.8	6.0	6.8
TROS	44.3	47.3	49.9	48.1	45.7	45.1	43.4	45.2	45.5	45.8	48.5	49.5
TT	55.6	52.6	50.1	51.8	54.3	54.8	56.6	54.8	54.5	54.2	51.5	50.5

TABLE 7-6 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
New Brunswick											
Total revenue											
% of GPP			13.9	14.4	14.3	15.2	16.0	16.7	21.7	22.1	24.1
Per capita constant $	301	336	317	330	332	380	413	440	568	599	653
% of total revenue											
PT				3.9	4.0	4.1	5.4	6.5	6.6	6.8	9.2
GS	8.9	7.9	8.4	8.0	8.5	8.1	8.4	9.0	11.6	12.2	14.1
OG											
ROII	2.9	3.1	3.1	2.7	2.5	2.0	1.6	0.9	1.0	1.1	1.1
TROS								52.3	51.6	52.6	55.7
TT	53.5	51.8	52.7	46.3	46.2	50.3	50.3	47.7	48.4	47.4	44.3
Nova Scotia											
Total revenue											
% of GPP			12.1	13.0	12.3	13.2	14.4	16.1	18.5	18.0	20.2
Per capita constant $	289	287	299	325	308	340	382	441	515	524	604
% of total revenue											
PT				4.5	5.2	5.9	6.9	7.4	8.4	8.7	9.2
GS	8.8	8.6	12.3	11.8	12.0	11.6	10.8	9.6	8.3	8.5	14.2
OG											
ROII	2.3	2.3	2.7	2.5	2.7	2.7	3.0	3.1	4.0	5.0	5.5
TROS								47.7	45.2	48.4	53.9
TT	54.5	55.3	50.8	44.6	42.6	46.1	46.8	52.3	54.8	51.6	46.1

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
New Brunswick												
Total revenue												
% of GPP	26.1	27.3	26.3	27.0	27.0	28.2	27.5	27.4	27.5	27.8	29.5	29.3
Per capita constant $	728	783	805	894	897	885	834	835	893	938	872	871
% of total revenue												
PT	9.2	10.1	10.5	11.8	11.5	13.5	14.2	14.0	15.7	13.3	14.0	14.5
GS	12.6	11.8	12.4	12.5	11.4	11.5	11.0	10.9	10.4	12.4	12.0	11.3
OG												
ROII	2.4	2.4	3.4	3.1	3.3	2.8	3.0	3.4	3.5	3.9	4.8	4.9
TROS	56.2	54.4	56.5	55.4	54.3	52.5	53.2	52.4	52.5	51.8	56.3	55.3
TT	43.8	45.6	43.5	44.6	45.7	47.5	46.8	47.6	47.5	48.2	43.7	44.7
Nova Scotia												
Total revenue												
% of GPP	20.8	22.7	22.4	24.1	24.6	25.6	25.6	25.9	25.8	26.6	28.2	28.8
Per capita constant $	627	690	725	824	823	808	799	816	834	857	849	858
% of total revenue												
PT	10.3	10.2	13.2	13.0	13.6	14.5	14.3	15.5	17.7	16.4	16.0	16.4
GS	14.1	13.3	14.0	13.0	11.4	10.8	11.4	11.3	9.5	11.4	10.8	9.9
OG												
ROII	6.9	6.3	6.8	6.5	6.7	6.6	6.0	5.3	5.2	5.0	6.1	6.2
TROS	57.8	54.5	58.0	56.1	54.9	52.3	53.9	53.3	53.0	53.7	54.5	54.7
TT	42.2	45.5	42.0	44.1	45.1	47.7	46.1	46.7	47.0	46.3	45.5	45.3

TABLE 7-6 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Quebec											
Total revenue											
% of GPP			8.7	9.4	9.7	11.3	11.6	12.0	13.9	14.7	15.1
Per capita constant $	240	243	300	334	345	420	444	467	538	571	582
% of total revenue											
PT	8.1	8.4	9.1	9.0	8.8	11.0	19.2	23.6	21.2	24.6	25.9
GS	10.2	9.6	12.3	14.0	14.0	18.7	18.7	17.2	18.7	17.3	16.9
OG											
ROII	0.7	0.6	0.6	0.6	0.9	0.8	0.9	0.4	0.4	0.6	0.6
TROS								80.4	76.2	77.1	77.9
TT	20.2	20.9	25.6	28.0	26.5	28.0	20.0	19.6	23.8	22.9	22.1
Saskatchewan											
Total revenue											
% of GPP			12.6	12.5	12.1	13.1	13.3	13.3	15.6	16.1	16.3
Per capita constant $	375	369	381	469	486	500	531	551	573	594	582
% of total revenue											
PT				5.4	5.6	6.6	8.6	9.9	11.2	11.5	12.7
GS	11.9	11.8	10.7	14.7	15.7	16.1	12.9	12.6	12.1	13.7	12.8
OG											
ROII	7.9	8.8	10.3	9.3	9.7	9.9	9.7	9.2	9.1	8.7	9.8
TROS								74.6	74.1	76.3	75.1
TT	36.7	36.0	34.7	25.8	23.4	22.4	22.5	25.4	25.9	23.7	25.0

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Quebec												
Total revenue												
% of GPP	20.0	21.1	21.1	20.9	22.6	22.9	23.4	24.6	24.4	24.5	24.5	26.1
Per capita constant $	780	834	867	918	994	959	979	1,033	1,054	1,072	1,052	1,093
% of total revenue												
PT	23.1	22.9	25.8	27.1	28.7	27.7	29.4	30.5	29.7	29.1	30.4	29.2
GS	13.2	12.6	13.1	13.1	12.7	12.7	12.0	11.0	9.4	10.0	9.4	8.1
OG			0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
ROII	3.5	3.6	4.3	4.3	4.5	4.9	5.3	4.3	4.9	5.4	6.3	5.9
TROS	75.4	74.8	78.0	79.5	77.7	77.1	77.9	76.3	77.0	76.4	78.2	78.7
TT	24.6	25.2	22.0	20.5	22.3	22.9	22.1	23.7	23.0	23.6	21.8	21.3
Saskatchewan												
Total revenue												
% of GPP	18.0	18.1	18.6	17.5	19.6	19.8	20.2	21.0	21.0	20.5	20.5	20.3
Per capita constant $	630	678	731	844	1,042	993	968	987	1,033	1,065	1,116	1,082
% of total revenue												
PT	10.8	8.2	10.3	11.9	12.4	14.2	17.0	16.3	14.9	13.3	15.1	16.7
GS	10.8	12.1	10.9	10.5	9.7	10.4	10.6	10.0	7.7	10.6	10.8	10.2
OG	4.9	4.5	4.0	4.8	19.2	13.5	12.6	14.2	16.8	16.8	17.1	11.8
ROII	9.2	7.9	7.5	7.0	6.3	6.5	7.6	2.4	2.3	2.7	2.7	4.3
TROS	68.4	60.8	62.4	62.3	72.1	76.2	79.1	81.6	81.6	81.9	84.1	77.0
TT	31.6	39.2	37.5	37.7	27.9	23.8	20.9	18.4	18.4	18.1	15.9	23.0

Source: Appendix to this study, available from the School of Public Administration, Carleton University.

Notes: PT = personal income taxes; GS = general sales; OG = oil and gas; ROII = return on investment from interest; TROS = total revenue from own sources; TT = total transfers.

TABLE 7-7 Provincial Government Expenditures, 1960–82

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Alberta											
Total expenditure % of GPP			10.7	10.7	10.0	9.9	10.8	13.5	13.7	14.2	15.3
Per capita expenditure	414	435	433	447	421	430	488	636	646	683	731
% of total expenditure											
TC	21.8	21.8	19.5	16.0	16.4	15.2	15.2	13.5	13.0	10.2	9.4
HEA	21.6	21.2	22.2	21.6	24.3	25.0	23.5	21.2	22.2	24.5	27.9
SW	8.2	7.8	8.5	9.4	10.0	10.6	10.2	8.8	9.8	7.7	7.4
ED	25.5	25.0	25.7	33.4	29.4	29.0	32.1	33.0	36.0	32.5	30.7
DEBT	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.3	5.1	5.3
ECOD	30.6	31.2	27.9	22.2	23.3	22.5	22.8	22.5	19.2	16.9	16.0
SOCD	56.0	54.9	57.5	65.3	64.5	65.4	66.7	66.3	70.9	67.1	68.3
British Columbia											
Total expenditure % of GPP			10.1	9.9	10.2	9.4	11.0	10.8	11.2	11.9	13.4
Per capita expenditure	392	434	431	436	446	430	520	511	521	567	633
% of total expenditure											
TC	22.1	23.1	20.5	21.9	21.9	17.0	15.2	14.5	16.5	13.5	14.6
HEA	22.5	21.1	21.4	21.5	21.1	22.3	19.0	22.2	23.4	26.3	28.3
SW	11.0	11.6	12.8	11.6	11.2	11.3	10.2	10.3	9.6	9.9	8.9
ED	19.4	18.7	19.6	21.1	21.8	23.7	22.3	22.7	24.2	28.1	23.2
DEBT	1.2	0.9	0.8	0.2	0.1	0.1	0.0			1.4	1.8
ECOD	30.1	31.7	28.9	29.3	28.6	23.5	31.8	22.2	24.1	20.0	20.6
SOCD	53.8	52.3	54.8	55.2	54.9	58.0	52.6	65.4	64.5	65.7	66.7

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Alberta												
Total expenditure												
% of GPP	16.7	17.2	15.4	14.0	14.3	15.5	17.8	16.2	15.9	18.5	15.8	17.6
Per capita expenditure	810	854	817	879	1,014	1,055	1,108	1,097	1,133	1,417	1,218	1,310
% of total expenditure												
TC	7.6	7.7	6.6	7.3	9.6	9.7	7.0	7.4	7.8	7.1	9.1	9.1
HEA	26.7	25.8	26.2	25.7	23.1	24.2	25.2	21.9	21.9	18.4	23.2	22.9
SW	9.1	9.2	10.7	12.5	12.9	10.1	9.6	9.7	9.4	7.7	9.3	9.4
ED	31.3	29.9	29.8	26.0	24.3	24.5	21.1	24.5	21.5	17.2	19.1	18.0
DEBT	5.5	5.7	6.3	5.7	4.9	4.3	4.1	4.3	4.5	3.9	3.8	4.0
ECOD	13.8	14.2	12.3	15.5	20.0	19.5	21.9	20.7	24.2	19.9	23.8	26.7
SOCD	68.9	68.2	70.1	67.5	63.1	62.6	59.7	60.9	57.2	49.7	60.9	58.5
British Columbia												
Total expenditure												
% of GPP	14.1	14.2	14.0	13.8	16.5	19.0	16.9	17.2	16.9	16.6	17.6	18.4
Per capita expenditure	652	683	716	782	906	971	875	904	912	933	969	975
% of total expenditure												
TC	10.2	12.2	13.2	11.3	11.9	10.4	8.8	9.7	9.5	8.8	9.6	9.1
HEA	28.9	27.8	27.2	26.5	25.2	25.2	26.5	25.6	27.5	27.9	29.1	30.5
SW	13.1	12.1	12.0	15.0	16.2	15.7	15.6	17.7	17.0	17.5	16.9	15.9
ED	22.6	21.3	20.3	19.2	17.7	17.5	17.3	17.2	16.9	16.9	15.4	15.4
DEBT	1.9	2.1	2.0	1.9	1.6	1.5	2.3	2.5	3.2	3.4	3.0	2.6
ECOD	16.5	18.8	19.4	18.6	19.5	23.2	18.3	18.1	16.2	16.3	19.7	20.0
SOCD	70.5	67.9	66.2	67.4	65.4	63.2	66.1	63.9	65.4	66.3	64.9	64.9

TABLE 7-7 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Manitoba											
Total expenditure											
% of GPP			9.7	9.6	10.2	10.6	11.2	12.4	12.9	13.2	14.7
Per capita expenditure	330	340	330	344	363	391	419	467	498	524	579
% of total expenditure											
TC	25.3	22.0	16.0	15.1	14.4	14.6	15.3	14.3	12.5	12.2	10.2
HEA	24.1	25.1	27.2	27.0	28.2	26.0	25.3	23.6	22.5	22.9	29.2
SW	7.4	8.7	10.2	10.5	8.8	9.3	8.7	8.5	7.5	8.6	7.3
ED	18.9	17.8	19.9	21.2	19.2	18.2	23.7	19.4	29.3	31.6	28.9
DEBT	6.8	8.2	9.2	9.0	8.1	7.3	6.9	6.1	5.5	5.4	6.4
ECOD	32.4	29.7	24.7	23.4	27.5	30.5	26.4	25.6	21.8	21.9	18.5
SOCD	51.1	52.2	57.9	59.4	56.6	54.3	59.3	56.0	63.4	65.2	67.3
Newfoundland											
Total expenditure											
% of GPP			20.6	24.6	24.0	26.6	25.2	33.5	34.0	31.3	29.7
Per capita expenditure	354	371	369	474	474	555	545	656	771	737	703
% of total expenditure											
TC	25.6	23.0	16.0	16.8	24.8	31.3	30.7	17.3	17.6	18.6	16.3
HEA	20.6	19.4	23.3	21.7	19.3	23.7	19.4	19.8	16.3	18.2	19.8
SW	18.0	16.5	16.1	13.9	14.1	11.9	12.0	11.6	13.5	14.3	12.7
ED	17.9	19.6	22.3	29.8	23.4	16.2	17.8	28.5	27.2	23.8	23.9
DEBT	3.3	4.2	5.1	4.7	5.8	5.5	6.3	5.8	6.2	8.7	10.3
ECOD	30.3	29.0	21.6	21.0	29.1	35.1	35.8	22.6	26.6	26.4	24.3
SOCD	57.0	55.8	62.2	65.6	57.1	52.0	49.7	62.8	59.8	57.7	57.9

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Manitoba												
Total expenditure												
% of GPP	17.0	17.6	17.6	17.4	18.1	19.6	20.0	22.2	19.3	19.8	20.3	21.1
Per capita expenditure	675	709	743	810	846	870	867	942	836	878	883	907
% of total expenditure												
TC	8.1	8.0	8.5	8.8	7.4	6.8	5.3	5.3	8.3	6.2	6.1	6.3
HEA	29.3	28.4	26.5	26.2	26.7	25.9	26.7	31.0	27.5	25.9	26.9	28.1
SW	10.5	11.3	11.3	14.4	13.0	15.3	16.1	14.8	16.2	14.8	15.1	13.5
ED	26.5	27.5	25.3	24.8	22.4	21.7	19.2	18.1	18.1	17.2	16.4	18.1
DEBT	7.5	6.3	6.7	5.9	6.9	6.8	8.2	8.0	11.2	12.7	11.7	12.9
ECOD	15.4	15.0	16.3	16.7	16.6	17.9	16.0	14.7	15.5	16.4	17.8	15.7
SOCD	68.8	71.0	68.9	68.1	65.2	65.6	64.6	66.1	63.8	60.0	60.0	61.3
Newfoundland												
Total expenditure												
% of GPP	32.3	41.9	37.8	37.1	40.5	44.0	40.7	37.8	45.4	40.4	42.3	38.9
Per capita expenditure	799	1,029	915	983	1,081	1,120	1,055	1,000	1,221	1,142	1,093	1,000
% of total expenditure												
TC	13.3	11.8	13.3	10.9	10.5	11.4	10.0	10.5	8.5	10.2	7.1	6.8
HEA	19.1	15.2	19.3	20.9	20.2	19.2	18.3	18.5	15.8	16.8	18.3	20.9
SW	12.5	10.5	11.2	10.2	9.5	9.1	10.0	10.0	8.2	8.9	9.4	10.3
ED	25.1	23.3	27.2	25.4	24.6	24.4	24.6	25.7	20.3	23.1	23.7	25.2
DEBT	9.6	9.3	10.6	11.3	10.8	10.7	11.4	14.1	13.6	14.8	16.0	15.4
ECOD	24.1	28.3	22.8	22.8	23.3	25.1	23.9	19.5	31.8	19.9	20.5	15.2
SOCD	59.2	52.6	59.5	58.8	58.6	57.2	57.5	58.2	47.6	52.1	54.3	59.3

TABLE 7-7 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
New Brunswick											
Total expenditure % of GPP			15.2	15.7	16.2	16.0	16.3	18.2	24.7	24.5	24.2
Per capita expenditure	308	360	346	359	377	400	421	482	651	664	655
% of total expenditure											
TC	37.0	30.5	27.6	23.8	25.8	25.9	27.8	26.2	21.9	14.6	12.6
HEA	15.9	26.2	24.9	26.5	26.7	25.1	23.4	22.0	18.1	18.4	19.1
SW	7.8	7.3	8.3	8.7	8.4	8.4	7.7	6.5	5.9	7.5	7.1
ED	12.1	12.0	13.7	15.5	14.9	14.7	13.7	18.7	29.2	35.2	35.6
DEBT	9.6	8.6	9.3	9.0	8.9	8.8	8.1	7.2	7.1	7.5	7.7
ECOD	42.8	35.8	33.6	29.3	31.0	31.3	34.0	31.9	29.1	21.3	20.5
SOCD	36.1	45.8	47.2	51.1	50.4	48.5	45.2	47.8	53.9	61.7	62.3
Nova Scotia											
Total expenditure % of GPP			12.6	12.9	13.3	13.4	14.7	17.3	19.3	20.3	21.3
Per capita expenditure	292	334	311	324	333	347	390	473	538	590	635
% of total expenditure											
TC	29.5	25.9	22.9	20.5	20.7	20.7	22.2	24.4	19.9	18.8	14.2
HEA	22.2	23.7	25.9	25.6	26.4	26.5	27.3	24.1	21.3	21.5	26.4
SW	8.1	7.5	8.2	8.8	8.9	9.0	7.9	7.0	7.2	7.0	6.8
ED	18.2	19.0	19.9	22.2	21.9	21.5	21.0	22.9	27.9	28.2	26.0
DEBT	9.4	9.1	10.4	10.1	10.6	10.0	9.4	8.8	9.2	10.1	12.3
ECOD	34.2	33.2	28.1	25.2	24.7	25.2	27.2	30.4	26.7	26.0	20.9
SOCD	49.0	50.9	54.7	57.6	57.9	58.1	57.1	54.8	57.2	57.6	60.2

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
New Brunswick												
Total expenditure												
% of GPP	29.0	27.8	27.3	26.7	28.7	30.6	29.8	29.7	28.2	27.1	31.0	31.6
Per capita expenditure	810	796	837	886	954	958	904	906	918	913	916	939
% of total expenditure												
TC	15.0	12.6	12.1	12.4	14.1	11.4	11.1	11.6	11.4	10.6	10.5	9.6
HEA	18.0	21.1	21.7	22.9	20.2	19.9	20.8	20.9	20.8	21.1	22.4	23.5
SW	8.0	9.7	9.6	9.8	11.9	13.4	13.1	13.1	12.4	13.0	13.1	12.4
ED	31.5	30.9	28.7	27.0	26.0	27.6	27.0	26.7	25.2	25.7	25.4	24.3
DEBT	6.0	6.5	7.3	6.6	6.3	6.2	6.3	7.4	8.6	8.8	8.6	9.5
ECOD	27.7	23.7	24.4	21.0	24.2	21.3	20.7	20.2	19.8	18.5	18.2	17.3
SOCD	58.6	62.8	61.2	60.6	58.7	62.5	62.8	62.1	60.4	61.5	63.0	62.1
Nova Scotia												
Total expenditure												
% of GPP	22.4	23.1	22.7	24.3	24.9	26.9	26.2	28.0	28.6	27.6	30.4	34.3
Per capita expenditure	676	704	736	832	830	851	818	881	924	891	913	1,023
% of total expenditure												
TC	13.0	13.3	11.6	11.4	10.7	10.2	8.9	8.3	9.9	9.4	9.4	9.0
HEA	25.3	25.4	25.0	23.2	25.0	24.8	24.5	26.7	22.3	23.3	23.2	22.8
SW	8.0	8.2	8.2	9.2	10.0	9.0	9.3	9.3	8.8	11.4	10.5	8.9
ED	25.9	24.6	24.9	24.0	24.6	23.5	24.7	22.6	21.5	22.3	20.9	20.5
DEBT	11.6	11.5	11.3	9.9	9.0	8.4	8.0	7.5	7.9	8.5	9.5	9.9
ECOD	20.3	21.4	19.6	21.2	20.4	22.0	19.6	20.7	26.0	21.5	21.4	25.6
SOCD	60.2	59.6	61.6	59.3	62.5	60.4	61.2	61.4	55.6	60.0	57.3	54.7

TABLE 7-7 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Ontario											
Total expenditure											
% of GPP			7.4	8.4	8.0	7.9	8.3	9.2	10.5	11.5	12.4
Per capita expenditure	322	320	337	393	378	385	416	468	531	595	638
% of total expenditure											
TC	25.5	23.2	20.9	17.1	18.6	18.4	17.7	16.7	14.6	12.8	11.2
HEA	24.5	26.7	27.8	25.0	24.3	26.7	25.6	24.8	25.6	25.6	27.6
SW	6.3	6.7	6.8	6.0	6.5	6.9	7.3	6.5	6.5	6.4	5.6
ED	20.2	21.1	22.6	32.0	29.9	27.3	28.8	31.7	34.0	31.6	32.9
DEBT	6.2	6.5	6.1	5.6	5.8	5.7	5.5	5.7	5.2	6.2	5.9
ECOD	29.7	27.1	24.9	20.7	22.2	22.6	21.9	21.2	18.6	16.8	15.0
SOCD	52.2	55.5	58.1	63.8	61.6	61.7	62.4	63.8	67.2	67.5	70.6
P.E.I.											
Total expenditure											
% of GPP			21.0	23.5	23.3	21.9	25.1	29.3	29.4	27.6	30.5
Per capita expenditure	408	356	393	450	446	441	521	614	621	610	679
% of total expenditure											
TC	43.9	33.5	33.1	31.3	28.0	28.4	26.6	26.0	23.0	19.8	18.0
HEA	16.1	19.3	20.0	19.7	18.2	18.6	17.8	17.1	16.8	17.6	17.0
SW	6.5	8.5	8.6	8.8	9.1	10.7	13.2	16.3	15.1	13.0	10.6
ED	10.9	16.5	15.9	19.7	22.1	17.7	14.7	17.3	19.3	23.2	26.1
DEBT	8.7	7.1	7.3	6.8	7.8	8.2	7.6	7.9	10.8	12.3	11.1
ECOD	48.7	38.2	38.8	36.1	33.9	33.8	32.0	33.1	29.2	25.7	24.6
SOCD	33.9	44.8	45.3	49.3	50.5	47.9	46.7	51.6	52.5	55.1	55.7

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ontario												
Total expenditure												
% of GPP	14.3	15.0	14.4	14.4	15.6	16.7	16.3	16.4	16.1	15.7	15.3	15.7
Per capita expenditure	737	785	786	831	864	875	845	847	843	837	801	807
% of total expenditure												
TC	9.6	9.3	8.5	8.6	8.1	6.6	6.8	7.3	6.9	6.8	6.7	6.7
HEA	29.6	29.2	30.3	28.5	28.4	27.4	27.0	26.6	26.7	26.2	27.5	28.5
SW	8.1	8.8	8.5	10.8	12.4	13.6	14.5	14.4	14.2	14.0	16.0	14.6
ED	28.8	28.3	29.1	26.7	24.0	23.5	22.9	23.1	22.7	22.1	21.2	21.0
DEBT	5.5	5.8	6.7	7.7	7.4	7.5	8.1	8.4	9.1	9.6	10.1	9.7
ECOD	13.6	13.4	12.1	11.8	11.8	11.6	10.4	11.6	12.1	12.4	12.2	11.9
SOCD	71.1	71.0	71.6	69.6	68.5	69.6	69.0	68.4	67.8	65.7	67.8	67.5
P.E.I.												
Total expenditure												
% of GPP	34.9	37.6	36.6	37.5	41.5	43.6	40.2	45.1	40.7	40.2	42.2	40.4
Per capita expenditure	811	873	916	1,039	1,064	1,094	983	1,109	1,058	1,057	1,056	1,003
% of total expenditure												
TC	15.4	12.7	13.4	12.8	10.2	10.1	9.6	9.8	11.2	11.7	13.2	12.0
HEA	16.8	19.0	18.5	16.8	17.0	16.9	18.3	19.0	17.9	17.4	18.2	19.5
SW	10.6	9.6	9.4	9.1	11.5	10.4	10.0	9.3	10.0	10.3	10.7	11.4
ED	24.4	23.5	25.8	27.1	25.9	25.7	27.2	23.7	24.5	24.0	24.0	24.3
DEBT	8.9	8.2	7.6	6.8	7.0	6.2	6.3	5.8	6.4	7.4	8.6	10.4
ECOD	24.6	24.7	23.7	23.2	22.3	21.4	22.3	30.2	27.8	27.5	26.4	21.5
SOCD	57.1	57.0	58.1	60.4	60.6	57.8	57.7	54.8	55.4	54.6	55.0	57.5

TABLE 7-7 (cont'd)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Quebec											
Total expenditure											
% of GPP			9.5	10.2	10.9	12.7	13.3	13.8	14.8	15.0	16.0
Per capita expenditure	239	280	328	361	387	474	508	537	572	582	617
% of total expenditure											
TC	23.3	21.4	14.0	15.3	15.4	16.0	16.7	16.2	11.8	10.7	9.4
HEA	15.3	15.6	22.4	23.2	22.9	20.6	21.4	23.2	23.6	23.4	24.6
SW	16.6	17.9	16.9	15.6	14.4	12.1	13.1	12.0	14.4	16.1	14.1
ED	20.7	22.1	26.3	25.1	26.4	27.1	25.3	25.8	28.3	27.8	28.7
DEBT	2.5	2.3	2.5	3.2	3.9	3.6	3.7	3.5	3.6	4.3	4.2
ECOD	33.3	30.8	21.5	21.8	21.8	22.3	23.5	21.8	16.8	15.7	14.7
SOCD	54.1	56.7	66.6	64.9	64.6	60.5	60.6	62.3	67.7	68.7	68.8
Saskatchewan											
Total expenditure											
% of GPP			12.7	11.5	11.7	12.7	12.7	13.5	15.4	15.8	16.1
Per capita expenditure	368	371	385	430	472	484	507	559	565	582	566
% of total expenditure											
TC	17.4	17.3	14.2	12.7	11.6	12.1	14.7	16.8	15.4	15.5	14.5
HEA	28.1	28.2	28.3	28.8	32.6	32.2	30.3	27.7	27.7	27.1	29.1
SW	8.6	9.2	9.4	10.0	9.3	9.1	8.9	9.1	7.8	7.2	7.2
ED	19.5	20.1	21.0	21.2	20.7	20.6	21.5	21.4	24.0	24.9	26.1
DEBT	7.8	8.2	9.8	9.8	9.4	9.4	9.2	8.1	8.3	8.1	5.9
ECOD	27.3	25.0	23.0	20.8	18.9	19.9	21.8	23.6	22.2	22.8	21.1
SOCD	56.9	58.2	59.7	61.8	63.9	63.2	62.5	62.5	63.7	63.0	65.9

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Quebec												
Total expenditure												
% of GPP	18.9	20.7	20.6	20.2	21.8	23.6	24.1	24.7	25.2	25.3	26.6	27.7
Per capita expenditure	737	820	849	889	962	988	1,008	1,038	1,087	1,107	1,145	1,159
% of total expenditure												
TC	10.1	9.6	9.8	9.7	9.3	8.9	7.7	6.8	6.2	6.3	5.6	5.5
HEA	24.7	25.7	26.5	25.7	24.6	24.6	23.9	21.9	22.0	22.2	21.2	20.8
SW	15.3	15.5	15.0	15.4	15.1	15.6	16.3	17.0	17.5	17.9	18.3	18.7
ED	26.1	26.3	24.8	24.6	25.5	25.2	27.2	27.2	25.3	24.3	25.9	26.1
DEBT	4.8	4.5	5.1	5.3	4.6	4.8	5.1	5.5	6.0	6.2	7.2	8.4
ECOD	15.8	15.0	15.1	15.5	15.5	15.6	13.4	12.9	12.3	12.4	11.5	11.0
SOCD	67.9	69.6	68.5	67.9	67.3	68.0	69.9	68.5	67.7	67.7	68.5	68.4
Saskatchewan												
Total expenditure												
% of GPP	17.7	17.5	17.8	15.7	16.6	18.1	19.5	21.0	19.7	19.8	19.1	19.6
Per capita expenditure	621	657	699	754	885	910	936	985	968	1,028	1,038	1,047
% of total expenditure												
TC	14.8	13.4	11.8	11.1	11.1	10.3	9.4	8.8	8.6	7.4	6.7	6.9
HEA	27.6	28.0	26.2	25.8	21.3	21.6	22.1	24.8	21.7	20.9	21.6	22.7
SW	9.3	10.5	11.5	11.9	12.3	12.8	14.4	13.8	14.3	13.9	14.8	12.8
ED	24.6	23.9	23.6	22.0	19.9	20.0	20.7	19.1	18.9	17.9	15.9	16.4
DEBT	7.6	6.6	6.2	5.9	4.8	4.8	5.1	7.5	8.4	9.2	9.0	11.0
ECOD	20.6	20.4	21.2	19.5	26.5	25.0	24.8	22.4	21.7	24.3	24.4	22.5
SOCD	64.8	65.9	65.7	65.5	58.0	58.8	58.3	59.2	56.9	54.6	54.2	53.5

Source: Appendix to this study, available from the School of Public Administration, Carleton University.

Notes: TC = transportation and communications; HEA = health; SW = social welfare; ED = education; DEBT = public debt charges; ECOD = economic development expenditures; SOCD = social development expenditure.

ence is even more noteworthy when one recognizes that equalization payments and other transfers from the federal government are included in the data.[20]

The growth in total revenue per capita (constant dollars) was concentrated in the period before the mid-1970s and, for the most part, there has been little or no growth after that date. The notable exceptions are Alberta and, to a lesser extent, Saskatchewan, as a result of higher oil and gas prices. A similar pattern holds if we examine provincial revenues from the provinces' own sources, although the rank ordering of the provinces changes somewhat, reflecting the fact that the poorer provinces generate less revenues per capita from their own sources and rely relatively more on transfers from the federal government.

The relative importance of federal transfers varies widely across provinces. The four Atlantic provinces each receive more than 40 percent (and up to 50 percent) of their total revenues in the form of federal transfers. At the other extreme, Alberta has for several years been receiving only about 10 percent of its revenues from this source.

For most provinces the personal income tax constitutes the most important source of self-generated revenues. Moreover, the relative size of this revenue source has generally been increasing (a trend enhanced by the transfer to tax points in 1977). Again, Alberta proves to be the exception; the personal income tax is now the third largest revenue source and its relative share has been decreasing. In Newfoundland and Prince Edward Island, the general sales tax generates about as much revenue as the personal income tax. Quebec relies on the income tax for a greater share of its revenue than any other province, followed by Ontario and Manitoba.

The general sales tax is the next largest own-revenue source for all provinces except Alberta (which does not levy this tax) and Saskatchewan, where oil and gas taxes have ranked second since 1974/75. However, it is not a growing source in relative terms; in all cases except Newfoundland, the share of total revenues accounted for by the general sales tax has either held steady or declined over the years. Provincial governments have been looking to new tax sources or to increased reliance on other existing taxes, e.g., personal income, in preference to the sales tax.

Finally, return on investments has been a relatively rapidly growing revenue source since about 1970. This still does not account for more than about 10 percent in any province except Alberta (about 17 percent) which benefits from the operation of the Heritage Fund.

To summarize:

- Revenues grew quite rapidly in all provinces until the middle of the 1970s. After about 1974, the trend was basically flat (in per capita, constant dollars) or slightly decreasing. The exception was oil and gas

income, which kept revenues growing in Alberta and Saskatchewan into the beginning of the 1980s.

- There is a large difference in the size of total revenues (per capita) across provinces and considerable variation in the composition of these revenue structures.

At an aggregate level, the pattern of provincial expenditures is, not surprisingly, roughly parallel to that for revenues (Table 7-7). Expenditures grew quite rapidly until the mid-1970s, at which point they flattened out or grew much less dramatically. In constant dollar per capita terms, expenditures in most provinces have actually declined or have ceased to grow since the peak they reached in the late 1970s. If this is interpreted as budgetary restraint, the phenomenon began earlier and is more widespread than current popular discussion would indicate.

The components of aggregate spending are quite consistent across provinces, in contrast to the revenue budgets which showed considerable interprovincial variation. Health care and education constitute the two largest claims on provincial budgets over virtually the entire period shown in the tables. Together, they account for 40 to 50 percent of total provincial spending. The relative size of education peaked in all provinces in the late 1960s or early 1970s and has declined somewhat since then, though not following any regular pattern. Health care costs as a share of the total have remained constant or risen in all provinces except Saskatchewan. Saskatchewan was able to reduce these costs when the national medicare scheme superseded the provincial plan which had operated previously.

This trend toward "policy homogenization" has been noted by other analysts of provincial spending. For example, Chandler and Chandler state that "socio-economic development (urbanization, industrialization), combined with important social policy initiatives by the federal government (e.g., Canada Assistance Plan, Established Programs Financing, and other shared-cost programs) has led to a common set of provincial policy obligations."[21] The similarities extend beyond these major program areas.

Three other expenditure items exhibit consistent trends across provinces. The cost of servicing provincial debts generally rose over the years shown, both in absolute terms (constant dollars per capita) and as a share of total spending. The increase is not constant, however, and there is no reason to conclude that the trend line will be upward-sloping in the future. Social service expenditures were increased in relative terms in virtually all provinces. Transportation and communications spending declined in all provinces over most of the period. The latter trend reflects the completion in the 1960s of a period of major spending on highways and other social infrastructure.

The share of total spending devoted to economic development activi-

ties declined markedly in most provinces between 1960 and the mid-1970s. Subsequently this relative decline was arrested or moderated. However, it is surprising that the high-profile concern with economic development that has emerged in recent years is not really reflected in spending on this grouping of activities. Perhaps this absence of evidence of (relatively) more spending on economic development suggests that provincial governments may be resorting to non-expenditure instruments (e.g., tax expenditures) to pursue their goals in this area. The notable exception is Alberta, where for some time a priority of the government has been to broaden the province's economy in order to make it less dependent on oil and gas sales. In 1982, Alberta was spending a greater proportion of its budget than any other province on these functions.

Social development spending increased in relative terms in all provinces between 1960 and the mid-1970s. By the latter date these functions accounted for two-thirds of total spending in most of the provinces. From then until 1982 the general trend was one of moderate reductions in the share devoted to social development functions.

There is thus considerable interprovincial variation on the revenue side of the budgets but considerable uniformity (at least at the levels of aggregation that we have discussed) on the expenditure side. The former reflects the differences in the provincial economies: their wealth, income bases and, consequently, the amounts they receive in federal transfers (equalization, in particular). The degree of uniformity on the expenditure side is perhaps more surprising, given the classic arguments regarding the ability of units in federal systems to pursue different goals. However, this option for diversity is tempered by the tendency for citizens of each province to demand similar levels of services in major policy areas and by the system of federal-to-provincial grants and tax transfers, which imposes a degree of uniformity on such major functions as health care, post-secondary education and social welfare. Somewhat more diversity occurs within these parameters, however, if one takes a closer look at output data in the five provinces.

A Closer Look at Spending in the Five Provinces

The two largest claims on expenditure in Nova Scotia have consistently been health and education. Health care spending constitutes about one-quarter of the province's budget. In per capita terms, health costs have grown slowly but quite steadily. Education spending peaked in 1969 (in terms of budget shares), and it has declined in relative terms fairly steadily since then. All other spending categories are much smaller in relative terms. Economic development functions have occasionally jumped for a year or two, but overall there is no clear evidence that the province is shifting its expenditure priorities in this direction.

A little more than half of government revenues in Nova Scotia are raised from the province's own sources. Personal income taxes account for about one-third of the province's own revenues. Equalization payments are the largest component of transfers received by Nova Scotia, accounting for more than one-half of total grants and about one-quarter of total revenues.

Quebec devotes more of its budget to education than any of the other provinces and less of its budget to health care, although health is still the second largest budgetary item in Quebec and in per capita terms, Quebec's health spending is one of the highest. As in Nova Scotia, there is no budgetary evidence that economic functions are being accorded higher priority; if anything, the budgetary share of these functions has been declining. Quebec spends a higher proportion of its budget on general government (which includes administrative overhead) than any other province. This observation is consistent with other evidence that Quebec is more heavily "bureaucratized" than other provinces. Finally, transfers to local governments are relatively low in Quebec, because the provincial government directly finances some functions that are locally financed in other provinces. One example is some education costs, which also partially accounts for Quebec's high education spending.

Over three-quarters of Quebec's revenues are generated from its own sources, with equalization payments accounting for about half of the remainder. Almost 40 percent of the province's own revenues are provided by the personal income tax, this being the highest proportion in the five case-study provinces. Sales tax revenues are also important, but they have declined in relative size (and in per capita constant dollars) in recent years. Payroll taxes (including Quebec Pension Plan premiums) became increasingly important in relative terms (and per capita) over the decade of the 1970s.

Health expenditures account for the biggest share of the Ontario budget by a considerable margin. In fact, Ontario government officials regard the control of health care costs as clearly the single most important (and difficult) budgetary problem they face. At the same time, it is interesting to note that several other provinces spend more than Ontario on health care on a per capita basis. Education costs, while still the second largest category, have been declining steadily and quite rapidly (in relative share and per capita terms) since the early 1970s. Here again, there is no evidence of rising expenditures on economic development functions.

Ontario generates over 80 percent of its revenues from its own sources. It receives no equalization payments, so Established Programs Financing payments and social welfare transfers (Canada Assistance Plan) account for the remainder of its revenue. While the personal income tax and the general sales tax are the two largest own-revenue sources, Ontario also receives significant revenues from the corporate

income tax. All tax revenues together make up most of the total, and in the aggregate their share has remained fairly constant over the years. Ontario's non-tax own revenues have not been growing in importance.

Alberta is the only province that has clearly been increasing its economic development expenditures over the later years of the period under review (since about 1973). In particular, expenditures on agriculture, industry, trade and tourism have grown markedly, reflecting the province's policy objective of broadening its economic base beyond natural resources. Because of this objective, Alberta devotes a larger share of its budget to economic development functions and a smaller share to social development than the other provinces. However, Alberta's per capita social spending is higher than that of any other province except Quebec. Among the other noteworthy expenditure trends is the quite rapid decline in the relative size of education expenditures since the early 1970s. In constant dollars, per capita education expenditures in 1981/82 were slightly less than they were ten years earlier and substantially less than five years earlier.

The most noteworthy observations about Alberta's revenue structure are the prominence of non-tax revenues and the absence of the general sales tax. Non-tax revenues, particularly return on investments (involving the Heritage Fund), constitute a larger revenue source for the province than either the corporate or personal income tax. Alberta's oil and gas revenues account for about half of the own-generated revenues. The province thus derives most of its revenue from its natural resource deposits. This is both a sign of its heavy and increasing dependence on its resources and a sign of its wealth, which allows it to maintain low income tax rates and not levy a sales tax.

Expenditure patterns in British Columbia are, in several ways, similar to those in Ontario. Health care is by far the largest item in the budget; education spending has fallen quite rapidly, relative to other spending, over the last ten years of the period shown; and there has been no clear trend toward an increase in economic development spending. However, patterns have been much more stable over the years in Ontario than in British Columbia. In addition, over most of the 1970s, British Columbia's general government spending increased at a faster rate than total expenditures and therefore accounted for a significantly larger share in 1981/82 than at the beginning of the 1970s.

Over 80 percent of British Columbia's revenues are generated from its own sources. Like Ontario, B.C. does not receive equalization payments from the federal government, so Established Programs Financing and welfare transfers account for the remainder of its revenues. Personal income taxes are the primary revenue source for the province, and their prominence has been growing. The general sales tax is the only other source generating more than 10 percent of the revenue total, but its prominence is declining. Returns on investments increased in the last

five years (approximately) of the period. Natural resource revenues increased markedly but erratically for brief periods in the mid and late 1970s.

Conclusions

In this chapter, we have examined three aspects of the provincial political economies. The first was a basic one of the regional economies of Canada, including some key shifts and changes since the mid-1970s. Apart from showing the different economic conditions under which the five case-study provinces have functioned, this brought out two points. First, these varying economic situations mean that some ultimate budgetary outputs are not always "choices" in any discretionary sense. Rather, they impose choice on governments. Second, the changes in the underlying features of the regional/provincial economy provide one, but clearly not the only, test against which to compare the second aspect we examined — namely the dominant partisan and leadership styles and central focus of particular regimes.

We stressed that these partly self-styled and partly perceived gross characterizations (indeed, caricatures) of particular regimes live lives of their own and have only a partial fit with reality — that is, reality as defined by some of the data in the first part of the chapter or with the last part of the chapter, in which we examined budgetary outputs. It is essential to view these stylized portraits of regimes, as well as the data, as constituting only a second "cut" at provincial budgetary dynamics. More dimensions are examined in the next two chapters.

There are some obvious variations in the extent to which the characterizations of the provinces fit with reality. For example, Alberta in the Lougheed era has characterized itself, in terms of diversifying the economy, by using its resource base to lever such diversification into resource-associated, value-added activity. The expenditure data suggest that it has spent more per capita than other provinces on economic development. Indeed, it is one of the only provinces to show an increased trend in this regard. On the other hand, Economic Council data suggest that Alberta has diversified only marginally and that this has not been in resource-associated areas. In its 1984 white paper on industrial policy, the Lougheed government, though still expressing some fears about being too dependent on non-renewable resources, reined in somewhat on its self-styled description so as to accord more with the facts. The budgetary facts are that it has tried hard to diversify and has had some success. The economic and other budgetary facts (e.g., on the revenue side) show that Alberta has an overwhelmingly resource-dependent economy but that this is less so than a decade earlier. If one switches to the social policy side of the budgetary equation, one gets a similarly mixed picture. Alberta's social spending is

relatively lower than that of other provinces, and it has led the charge to develop measures to control medicare costs. By one account, this could lead one to label the Lougheed Conservatives as social Darwinists. However, Alberta still spends a large amount per capita on social development and has no sales tax, which is without doubt one of the most regressive of taxes. On this scale, Alberta is socially progressive, whether by design or by the sheer dint of its extraordinary oil and gas wealth.

Quebec provides a second illustration of the varied fit among these portraits. There appears to be a fairly close fit between the expected social democratic statism of the Lévesque era and the earlier legacy of the Quiet Revolution, in that there are greater government overhead costs per capita, higher per capita spending on education, and higher income tax rates. The education spending reflects, in part, the core support of the Parti Québécois among white-collar professionals and the young. On the other hand, no strong trend in increased commitment to economic development spending is evident. This could easily be misleading, however, in that spending on education may also be evidence of a commitment to economic development. Moreover, as Chapter 9 will show, since the late 1970s Quebec has exhibited greater budget restraint than most provinces. This may be seen as either confirming the government's self-image of being a good manager or disproving its image of left-of-centre politicians with a social conscience. Finally, the Lévesque portrayal of Quebec as an economy disadvantaged by federalism and more fragile than Ontario is not entirely borne out by the data in the first section of this chapter. The two economies look very similar in terms of overall employment composition (and, indeed, more so than in the 1960s), but this clouds the fact that Quebec manufacturing is more vulnerable in areas such as textiles.

One could go on to give summary views of the degrees of fit for the other provinces as well, but we trust that the general line of argument is clear enough with these two examples. The examples also show, incidentally, a point stressed in our review of federal spending — namely that single-dimensional interpretations of functional spending categories or tax categories lead, in part at least, to distorted views of priorities and effects.

As for other elements of provincial budgeting, this chapter has indicated that, on the whole, provincial premiers are more active participants in budgeting than the federal prime minister is. The range of dominance varies across the five provinces to a considerable degree, from a strong involvement by Lougheed and Bennett, to more selective involvement by Davis and Lévesque, with Buchanan somewhere in between. In the realm of budgetary coordination, the chapter has added further evidence to the basic pattern already stressed in Chapter 3. There is considerable coordination evident in aggregate expenditure

trends. Revenue bases vary greatly, and this again shows why tax, equalization, and revenue arrangements are central to an acceptable ongoing sense of fairness among the regions. There are, however, significant points of variation among the provinces in areas such as education. Finally, the perhaps surprising absence of any upward trend in real spending on economic development across most provinces should further caution those who label the entire 1970s as an era of province building. There may be evidence for province building in other government instruments, but it does not leap out of the data presented here.

Chapter 8

Provincial Budgeting Dynamics: *Limited Keynesianism, Goal-Setting, and Electoral and Consultative Politics*

We now proceed to a second look at provincial budgeting dynamics, primarily in the five case-study provinces. The chapter begins with a consideration of the degree, form and limits of the practice of countercyclical fiscal policy that is evident in provincial budgets. To what extent is provincial fiscal policy based on Keynesian notions of stabilization, and what are the limits in the practice of countercyclical policy? The second part of the chapter examines the role of political rhetoric in provincial budget speeches and related documents. How do provincial treasurers and finance ministers describe their budgets and fiscal measures? What do they perceive to be the main purposes of their budgets? The third part outlines the actual goals that have been expressed in these provincial budgets. What has been the ranking of goals, and to what extent have priorities changed in the 1970s and 1980s? How, if at all, has the rhetoric changed in expressing goals, and what does this tell us about provincial budgeting and policies?

The fourth part of the chapter considers the relationship between provincial budgets and the proximity of an election. With the data we have compiled on revenue and expenditure patterns, we conduct a simple statistical test to determine the validity of the classic hypothesis of electoral budgeting — namely that a government will increase spending and restrain or reduce taxation immediately before an election. The fifth part of the chapter discusses the nature of certain authority roles and relationships in provincial political systems, and their interactions and impacts on budgeting. The chapter concludes with a brief discussion of some recent developments in pre-budget consultation.

Provincial Keynesians: Practice and Limits

Keynesian thinking holds that the task of governmental managers is to utilize a judicious mix of changes in taxation and in the level of total government spending to stimulate the demand for goods and services when the demand is deficient, and to constrain demand when it is excessive in relation to the productive capacity of the economy. This so-called demand management is conventionally directed toward economic policy goals such as full employment, price stability and economic growth.[1] Demand management is usually related to the short-term manipulation of aggregate demand in order to even out business cycles and ensure more stable economic conditions. Countercyclical fiscal policy requires a net budget surplus of revenues over expenditures when economic conditions are inflationary, and a net deficit when the economy is sluggish. To what extent have provincial governments manipulated personal, corporate, property and sales taxes, as well as expenditures, in order to facilitate stable growth?

"In the past," writes R.M. Burns, "provinces have only occasionally acknowledged any responsibility for influencing the economy, although they have rarely been reluctant to criticize what the federal government might do."[2] In the 1980s it is still the case that the provinces, in their budget statements, criticize the federal government for what it has or has not done in energy, economic, social or fiscal policy. Provincial governments continue to argue that the federal government should be responsible for the management of broad economic aggregates such as income, employment, inflation and international trade. For example, as the 1982 Nova Scotia budget stated, "The primary responsibility for . . . management of the national economy rests with the Government of Canada."[3]

At the same time, however, provinces are now more explicitly and more frequently acknowledging a responsibility and capacity, however limited, for influencing their economies. On both the revenue and expenditure side of the budget, several provinces have undertaken certain measures in particular fiscal periods to influence economic developments. Provincial governments express a belief that provincial economic leadership makes a difference and that through their budgets they can deliberately and effectively influence employment, prices and growth.[4]

A number of countercyclical policy instruments are potentially available to enable the provinces to stimulate their economies or deliberately restrain them. Automatic stabilizers include agriculture and farm subsidies, a graduated personal income tax system, and social assistance/welfare payments. Discretionary instruments for stabilizing demand levels include moral suasion, tax measures (cuts, freezes, increases), wage and/or price controls, and deferrals or accelerations of capital

expenditures. All of these discretionary instruments have been used by provincial governments in pursuing more active fiscal policies. Of course, the provinces do not have the option of monetary policy that the federal government has.

In Ontario, for instance, the role of provincial budgets in managing the economy was accepted as given by the mid-1960s.[5] Ontario's approach to stabilization has been a flexible fiscal policy, one that is selectively stimulative and restrictive, with an emerging sector-selective approach since the mid-1970s. The Ontario budget of 1968 was a "moderately expansionary" investment budget. The treasurer stated, "This government is determined to play a purposeful part in the economic and social development of the province and our people." In 1972 the Ontario budget ran up "a substantial but manageable" deficit to stimulate economic recovery. In 1974, to counteract the impact of inflation, the Ontario treasurer introduced tax measures to restrain inflation and speculation, and expenditure measures to stimulate supply and offset the effects of inflation on low-income families and people with fixed incomes. Again in 1975, the Ontario budget endeavoured to reinforce incomes and purchasing power and to increase investment. Significantly, the 1976 Ontario budget complained that Ottawa was leaving the burden of economic stimulation to the provinces and that this caused problems in controlling provincial expenditures. As noted in Chapters 4 and 5, this was the year that the federal government explicitly reined in on its earlier Keynesian habits and began to stress structural issues.

The 1978 Ontario budget, however, stressed that the responsibility for economic expansion rested with the private sector and that general stimulation in the form of increased government spending was counterproductive. Because of the "marginal returns" to provincial governments from stimulating the economy, the treasurer opted for a selectively stimulative strategy with tax incentives for the mining industry and for research and development, along with jobs for young people and some stimulus to the hospitality industry.

Despite doubts expressed in the 1978 budget about the ability of Ontario to conduct stabilization policy and carry large deficits, the 1979 budget stated, "While much of the responsibility for tackling these problems [i.e., unemployment and inflation] lies with the federal government, Ontario can and must provide responsible leadership and policy initiatives that will help."[6] Perhaps a change in treasurers and a switch from majority to minority government status helps explain this renewed limited commitment to provincial Keynesianism. Ontario's sector-selective approach to stimulation is most evident in this budget. Tax incentives for growth were granted to small business and to the mining, furniture, kitchen machinery and equipment sectors. New expenditures for job programs and skills training were also included. This sector-

selective approach fits with the Ontario Conservatives' preference for more limited scope for government and first helping sectors where economic performance is weak, and with their view of the limited capacity of provincial policy instruments to stabilize the economy.

In November 1980 the Ontario treasurer brought down a mini-budget that was a $260-million stimulative package. During the recession of 1981 and 1982, the emphasis on selective stimulation continued, with special measures for the appliance and residential furniture sectors, for certain building materials, for small business, and for buyers of new homes. Various capital projects were accelerated and job-creation measures were announced. To encourage economic recovery and accelerate the growth of employment, the 1983 Ontario budget included a sales tax exemption for heavy trucks and trailers, and a temporary tax cut to stimulate purchases of household furniture and appliances.

The cyclical role of provincial budgets is also evident in varying degrees and forms in Alberta, British Columbia, Nova Scotia and Quebec. In 1972, because economic opportunity was below potential, the Alberta budget stated that it was "the responsibility of the Province to provide additional stimulus." The province did so in the form of $200 million in capital projects. The 1975 Alberta budget contained several measures to offset increases in the cost of living and to increase disposable incomes. Then, in 1976 and 1977, to counter inflation, the government substantially restrained its rate of increase in provincial spending. The 1979 budget was stimulative, and capital construction increased more than 41 percent to $768.5 million. The Alberta treasurer stated that the 1981 budget was designed to stabilize the economy and to counteract the "bizarre" federal energy policies. Capital projects totalling $1.6 billion were planned to sustain the momentum in job creation.

An examination of Nova Scotia budgets of the 1970s reveals a theme of fatalism to external economic forces. In 1978 the minister of finance said, "The performance of our Provincial economy is dependent in large measure upon events over which we as a province have little, if any, control." The minister shied away from deficit financing, as it would erode the provincial government's ability to cope with escalating costs in the future. In Nova Scotia, the trinity of inflation, unemployment, and low growth requires a juggling act to constrain spending and pay for programs designed to ease unemployment and encourage investment.

Despite these constraints, there are instances of acceptance of a stabilization role in Nova Scotia budgets even in the 1970s. The 1975 and 1976 budgets were wait-and-see documents aimed at stabilizing the economy. Some restraint measures were taken to contain inflation. The minister of finance extolled the virtue of government investment as a stabilizing force rather than a source of stimulation. To ease unemployment, the 1977 budget contained substantial capital expenditure programs on highways and other public works projects.

It is worth noting that with a change in government in 1978 (defeat of the Regan Liberals and election of the Buchanan Conservatives), a change in tone and content became evident in Nova Scotia budgets. Recent budgets have been more assertive and confident, and have embraced Keynesian fiscal policy ideas more fully than earlier budgets did. The role of the provincial government has been seen as developing an economic framework for the province, controlling and managing natural resources, and clearing the way for the private sector by sponsoring technological advances and job-creation measures. The 1980 Nova Scotia budget was designed to stimulate economic activity and broaden the revenue base. There was some stimulus to small business and secondary manufacturing, an increase in expenditures, and some reduction in taxes. The 1981 budget was also stimulative. It was billed as a comprehensive provincial investment plan to accelerate the rate of investment that had been undercut by high interest rates. The 1982 and 1983 budgets, by contrast, were restrictive and oriented toward restraint. In 1982 personal income taxes, corporate taxes, and the health services tax were all increased, and the 1983 budget continued general restraint in order to maintain a sound policy and fiscal environment and create consumer and investor confidence.

British Columbia budgets in certain fiscal years have set out to influence economic conditions. The 1978 budget was officially called an "unemployment budget." The provincial finance minister expressed his commitment to the idea of a balanced budget but said that balanced budgets were not necessarily required when the provincial economy was in a period of slow growth and productive resources were underutilized. Surpluses that had accumulated in high-growth periods could be used to bolster and stabilize economic performance in a slow-growth year. Consequently, the "surplus" from 1976 and 1977 was harnessed for job-stimulation programs in 1978. In 1980 the budget offered selective expansion and stimulus through measures to farmers, elderly citizens, home buyers, and small and medium-sized firms to cushion the impact of continued inflation and high energy prices.

In the 1982 budget the B.C. finance minister stated that economic leadership and perseverance by a provincial government could make a difference. This was very similar to sentiments expressed in the 1968 and 1979 Ontario budgets and in the 1982 Nova Scotia budget. To demonstrate a leadership role in maintaining the level of demand in the B.C. economy, an Employment Development Account ($132.9 million) was established to stimulate the economy and create jobs. In 1983, despite the government's continuing and hardening public sector restraint policy (see Chapter 9), the Employment Development Account was increased to $415 million and capital projects were accelerated.

The belief that provincial budgetary policy can be important in the management of the economy is illustrated by a background paper to the

1982 British Columbia budget, exploring the feasibility of countercyclical capital budgeting. It notes:

> In order to determine the most appropriate method to counteract the regional impacts of the current recession and to establish a countercyclical fiscal strategy for future years, the government of B.C. has been examining the possibilities for accelerating capital projects in areas experiencing high unemployment and low business investment. Such a strategy would allow the government to stimulate the provincial economy without borrowing to meet operating expenses. In addition, analysis indicates that an increase in non-residential construction expenditure is more effective in stimulating the provincial economy than other comparable methods, including a tax reduction.[7]

Since the provincial public sector controls over one-third of total non-residential construction in B.C., the provincial government in principle is able to influence the timing of a significant proportion of construction activity. The paper notes that further analysis is needed but that if such a policy is found to be feasible, it "could reduce the magnitude of cyclical fluctuations in the provincial economy and moderate alternating periods of excess demand and unemployment in the construction industry."

Quebec, too, has manipulated its revenues and expenditures on certain occasions in a deliberate effort to stimulate or restrain the economy. In 1968 the Quebec budget contained $900 million of investment by the public sector to put new drive into the economy. In the face of an "inflation psychosis," the 1970 budget was one of consolidation, with more selective incentives to key sectors. The 1971 and 1972 budgets were expansionist. High deficits were deliberately incurred to maintain economic growth and create jobs through high levels of capital expenditures in the public and para-public sectors of Quebec. In 1975, in response to slackening demand, a slowing rate of economic growth, delayed investment, and rising inflation, the Quebec finance minister attempted to stimulate the economy and reduce inflationary pressure through tax reductions amounting to $540 million. The Quebec finance minister's remarks on stimulating growth without aggravating inflation are worth quoting at length:

> Our economy is presently grappling with a world-wide phenomenon which has come to be called "stagflation," a mixture of stagnation and inflation. On the one hand, employment is dropping and, on the other, prices are rising at an alarming rate.
>
> In the face of such a paradoxical situation it is difficult to know which direction to take. A government which seeks to stimulate its economy must run the risk of increasing inflationary pressure. At the very least, its opponents will loudly proclaim that such government is deliberately fanning the flames of inflation. If that government wishes to slacken inflationary pressure, it runs the risk of jeopardizing growth, in which event its opponents will accuse it of deliberately increasing unemployment.

> We have made an effort to avoid both these pitfalls by proposing a number of tax reductions amounting to more than half a billion dollars intended both to stimulate the economy and to reduce inflationary pressure.
> - $420 million in personal income tax
> - $ 20 million in corporate income tax
> - $ 20 million in consumer taxes
> - $ 80 million in school property tax
>
> Personal income tax reductions will contribute, on the one hand, to stimulating demand for consumer goods and consequently promoting economic growth, and, on the other hand, to alleviating pressure on production costs by increasing the real wages of workers. Similarly, private investment incentives, in addition to substantially increased public investments, will not only stimulate economic activity but will also contribute to increasing our production capacity. Finally, assistance to municipalities, while enabling them to maintain the jobs which they create, will prevent any undue increase in municipal taxes, thereby cutting down on inflationary pressure.[8]

Similarly, in 1976, to reconcile the goals of fighting inflation and sustaining economic recovery, the Quebec budget took measures to restrain government expenditures overall (especially operating expenditures) and to support investment and industrial development (particularly tax incentives and capital expenditures).

The 1977, 1978 and 1979 budgets of the Parti Québécois preached prudent management, control of government expenditures, and lowering taxes where and when possible. In its 1978 budget, the Parti Québécois government announced the indexation of the provincial income tax structure. The indexation policy and the formula that was adopted were unlike those used by other provinces and by the federal government. "The Canadian formula suffers from the principal drawback of taking away from governments, in the event of a recession, the necessary freedom to stimulate the economy effectively without resorting to excessive deficit financing."[9] Under the Quebec formula, all personal exemptions are indexed every year, and the finance minister announces each year the rate of indexation which will apply the following year. "This rate will be determined partly by the predicted rate of inflation and partly by what the government may pay out, taking into account the expenditures it considers necessary."[10] Indexation as a fiscal and economic instrument was clearly recognized by the Quebec government.

In 1980, for the first time since the Lévesque government had come to power in late 1976, the threat of a recession in Quebec and in the rest of Canada appeared quite real. The Quebec finance minister stated in his 1980 budget address that the government was able to play an expansionist role now that the economy required it:

> We have not re-established Quebec's credit, brought our net financial requirements to a reasonable level and reduced non-priority expenditure for

> the past three years simply to make things look better. When the economy requires it, you must be able to absorb a deficit compatible with the objectives sought. Such is the purpose of this year's operations. Such is also the best way of helping the economy get back on its feet.[11]

He went on to say:

> One would have expected a less robust state to prove timid in the face of such a threat, to restrict its spending, stabilize its taxes, and let the recession run its course by adopting a neutral attitude until the storm had blown over. Our efforts over the past three years, however, enable us to take action, to announce $350 million worth of new expenditures, particularly capital expenditures, and to continue to reduce personal income taxes and sales taxes to the tune of almost $300 million.[12]

In 1982, however, the budget returned to middle-of-the-road fiscal policy. Its main elements were public sector restraint, some job-creation measures, and some tax increases. Then, after the worst economic conditions in Canada since the 1930s, the 1983 budget was directed at reviving the Quebec economy. The plan of action included housing grants, some job creation measures, several tax expenditures (i.e., tax rebate, tax credits and tax exemption), and the acceleration of public projects.

Having surveyed the general budgetary policies and strategies of the five provinces, what can be concluded about the degree and form of countercyclical fiscal policy making? Professor Kenneth Bryden has suggested that in the mid-1970s neo-conservative influences were becoming accepted and being asserted in Ontario budget speeches and papers. In the case of Ontario, according to Bryden, "management of the economy as a goal of budgetary policy fell into the background and the focus shifted decidedly to fiscal restraint."[13] Excessive government spending and unnecessary growth in the public sector were identified as root causes of inflation in Canada. Certainly, the emphasis on fiscal restraint was evident in the budgets of Ontario (1975–78), Quebec (1977–79) and Alberta (1976–78); and undoubtedly, as we shall see in Chapter 9, much of the rhetoric and reasons for government restraint contained neo-conservative ideas. Yet in the late 1970s and early 1980s, various provincial budgets accepted or reaffirmed their acceptance of a role in managing the economy.

Keynesian ideas and the principle of a cyclical role for provincial budgets have survived, and they continue to exert an influence on budgetary policy, albeit in a selective manner. Against the background of the economic slowdown, recession, and tentative recovery during the late 1970s and early 1980s, an active stabilization role has been evident, in varying degrees, in the budgets of Alberta (e.g., 1979 and 1981), British Columbia (1978, 1982, 1983), Ontario (1980–83), Quebec (1980 and 1983) and Nova Scotia (1980 and 1981).

The use of the tax system as an instrument for influencing the provincial economy has become much more common and widespread in recent years. In the past the provinces rarely acknowledged any responsibility for using taxation as a fiscal policy instrument,[14] but since the early 1970s, provincial governments have taken several initiatives to use the tax system to pursue economic and social policy objectives.

A large number and wide variety of special measures have been put forward by provincial governments. These include tax credits, tax rebates, tax reductions, tax surcharges and dual corporate tax rates.[15] Such special measures offer the provinces a greater degree of flexibility in developing fiscal policies for their jurisdictions, along with "the relative lack of expense and visibility they have in the tax collection arrangements to pursue their objectives."[16] The taxing power of the provinces is significant. In 1981–82, total own-source revenues as a percentage of gross provincial product were 20.8 percent in Alberta, 15.9 percent in B.C., 12.3 percent in Ontario, 15.8 percent in Nova Scotia, and 20.5 percent in Quebec. Total provincial expenditures were more significant in each economy (except Alberta).[17]

As mentioned earlier, the degree and form of countercyclical public expenditure have been both variable and selective in each province. At various times in the business, electoral and intergovernmental fiscal arrangement cycles, provincial budgets have made efforts toward disaggregated stabilization policy. Each province has, to some degree, consciously adopted a micro approach to job stimulation in the private sector and to restraint in the public sector. This micro stabilization policy has been directed toward the economic behaviour of specific business sectors, consumers, investors and resource owners, partly because it is known that "leakage" of general stimulus efforts is considerable, a point stressed in Chapter 3.

Overall, we might call the current state of provincial budgeting "limited Keynesianism." It is a compromise between admitting no responsibility and accepting full responsibility (and blame?), between province building and nation building, between regional/provincial variations and national harmony in fiscal policy, and between the politics (responsiveness, visibility) and economics (credit ratings, leakages) of budgetary policy. As we state in Chapter 3, the limits facing the practice of provincial fiscal policy should be stressed. Burns has pointed out three basic constraints. First, "a fundamental problem exists in the inability of provinces to utilize the monetary system to support their cash positions." Of course, there are real limits to drawing on reserves or borrowing on the open market to meet revenue needs. Second, "the smaller the jurisdiction, the more difficult it is to limit the effect of policy to its own boundaries." Third, it cannot be assumed "that a higher level of provincial taxation than that of its neighbouring competitors will go unnoticed by investors."[18]

Political Rhetoric in Budget Speeches

Along with the financial items, a budget contains important semantic and symbolic aspects. In this section we wish to highlight political rhetoric or language as an element of budgetary process and tactical budgetary politics. Budget speech rhetoric is budgeting as symbolic action. It is an inescapable part of provincial policy and politics. The idea of rhetoric as a tool for budgetary analysis calls attention to the arguments expressed and the style of language used in a budget speech, and to the intended effects. As part of the art of public persuasion and basic political communication, what is the nature of rhetoric in provincial budgets?

That the content of budget speeches contains much rhetoric is obvious. As Chandler and Chandler explain, "Because the expenditure budget is an announcement of government objectives, it is a frankly political statement and is subject to scrutiny and criticism by the Opposition."[19] Budgetary rhetoric involves the use of language for redefining and describing issues, and for exhorting and persuading individuals and groups about the merits of particular judgments and fiscal decisions. This type of political language, with its own dialect of specialized vocabulary, contains values, facts, attitudes and beliefs. A budget speech expresses what provincial finance ministers and governments officially believe to be true and necessary. It is a mixture of objective and subjective knowledge. The rhetoric of budget speeches is based upon, and projects, certain images of the economy and of polity and society.

The language of budget speeches forms a vital part in the tactical strategy of a government's fiscal and economic policy. It can set the tone and style of legislative debate, can influence media reaction, and can help maintain or alter the prevailing political climate. Budgetary rhetoric is used in expressing policy themes, justifying priorities, and explaining choices of action and inaction. It helps summarize and simplify complex issues, and represents a posture or position taken by the government. Writing in the late 1970s, Chandler and Chandler argued:

> The dominant trend in provincial budgeting is fairly clear. In the last decade there has been a gradual evolution away from purely control purposes. . . . The provinces have come to recognize that the budget is a crucial part of policy-making and a valuable instrument for planning and policy choice.[20]

This evolution and expansion in the role of provincial budgets is manifested not only in the structures and processes of these governments but also in the style of presenting budgets.

Provincial budgets are not only ledger books; they are tools for governing. Consider the following statements of provincial treasurers and finance ministers in describing what a budget represents:

With the growth of state-controlled revenue and expenditure, the Quebec government's budget has taken on an overriding significance for our economic and social life.

A budget is a yardstick of what we can do and how quickly we can do it.

A modern budget is not simply a bookkeeping statement. It is a deliberate instrument of social and economic guidance; it is part of the very fabric of our society and economy.

Today's budget operations can no longer have as their sole objective the financing of the government's administrative responsibilities; they become a way to achieve economic and social objectives.[21]

To underline the instrumental nature of modern provincial budgeting, treasurers and finance ministers give their budgets labels which reflect the economic conditions and their own fiscal policy choices. Sample labels from various provinces since the mid-1970s include "full employment budget," "responsible fiscal plan," "stimulative budget," "realistic fiscal framework," "investment budget," "expansionist budget," "development budget," "unemployment budget," "budget of consolidation," and "resurgence budget of cautious confidence." The extent to which such labels are appropriate characterizations can be properly judged only after a careful analysis of the provincial political economy and the budget in question.

Whatever the label, contemporary provincial budgets serve at least four basic financial and political purposes, and it is in the expression or articulation of these purposes that the nature of budgetary rhetoric is revealed. Thus, when we speak of the budget as a goal-setting occasion, we are really referring to four elements that are typically contained in provincial budget speeches and documents.

First, of course, budgets are statements of the financial resources set aside for carrying out specific activities in a given period of time. They indicate expenditures, revenues, and the deficit or surplus planned. In this context, the budget is an accounting of the fiscal position — a set of figures by which a government intends to maintain itself over a fixed period. It is a statement of a provincial government's current financial situation.

Second, the budget is a statement of the economic prospects that the future holds. This often involves the expression of past performance, present programs and projects, and future developments, causing a budget to be "a digest of facts concerning where we have been, where we are now, and where we shall be going."[22] Thus, budgets may express deep concern and apprehension, cautious confidence, or optimism and faith, and they may describe the next fiscal period as a year of constraint, growth, recession or recovery. Beyond the expression of sentiment and the description of prospects, the modern provincial budget speech usually explains the state of the economy. That is to say, it highlights the

cause or causes of the current economic situation. Blame for poor economic conditions is often directed toward a previous provincial administration, the federal government, the U.S. government, or worldwide economic forces. On the other hand, treasurers usually give credit for favourable and improved circumstances to the premier's leadership, the cooperation of cabinet colleagues, prudent economic policies, or compassionate social services.

Third, the budget speech provides an important occasion for the detailed and specific expression of the governing party's political ideology. Over time, budgets can reveal a pattern of political attitudes, beliefs and ideas. Moreover, they may reveal fundamental assumptions of economics, politics and social life. Provincial budgets express goals, priorities, themes and philosophies, all of which are stated in a particular political fashion. There is the advocacy of ideas such as individualism, free enterprise and equality of opportunity. There are also statements of attitude about the role and scope of the public sector, foreign ownership and investment, and the relationship between economic and social development.[23]

Fourth, a budget announces the actual policies and programs, agencies and delivery systems through which government preferences and goals will be implemented. For observers of the political system, the budget speech provides the single best occasion for a detailed definition of the particular instruments and objects of intervention chosen by a government. "The budget speech is an event awaited with interest because of the impact it can have on the financial system affecting all taxpayers," observed the Quebec finance minister in 1974.[24]

All in all, the provincial budget in Canada has become an opportunity for expressing the fiscal philosophy of a government (e.g., Ontario 1975, Nova Scotia 1980); for warning or attacking Ottawa (e.g., Alberta 1981, Quebec 1982); for appealing to citizens for self-discipline, greater effort and fewer expectations from government (e.g., B.C. 1983, Nova Scotia 1977); for describing and explaining recent and current economic conditions in Canada and perhaps elsewhere; for announcing revenue and expenditure decisions and levels; and for announcing the new directions and priorities of new governments (e.g., Alberta 1972, Nova Scotia 1979, Quebec 1977).

Provincial Budgetary Priorities and Goals: Continuity and Change

Having considered the role of political rhetoric, we now turn to an examination of the actual goals and priorities that have been expressed in provincial budgets. We shall examine each of the five case-study provinces in terms of overall budget themes and priorities, economic policy goals, and social policy goals. We are particularly interested in

assessing the degree to which priorities have changed since the late 1960s and in noting whether the language of expressing economic and social goals has changed.

Alberta

In Alberta budgets, some significant shifts in general priorities can be observed since the late 1960s. Social policy, particularly in the education and health fields, was the high priority of budgets in the late 1960s and early 1970s. From about 1974 onward, however, social policy as a top priority was eclipsed by economic and energy concerns. Natural resource management, energy and economic diversification emerged as rising priority areas for the Alberta government. Coupled with these new priorities, a more interventionist conception of the role of the provincial government in economic development was being advanced.

The Lougheed approach to economic policy, as expressed in budget speeches, focusses on the goals of development, diversification and decentralization. These have been the core objectives of Alberta economic strategy since 1972. Development refers to the orderly exploitation of natural resources, encouraging exploration and development efforts and exporting the resultant resources, and stimulating the creation of new jobs. Diversification relates to promoting a broader-based economy by expanding manufacturing and service industries and by processing resources. The provincial government has endeavoured to facilitate "the transition from a resource-based economy to a more permanent self-sustaining diversified structure."[25] Decentralization refers to the geographic dispersal of economic opportunities and benefits throughout the province. A recurring theme of budgets has been the aim of promoting balanced growth to achieve a regional balance of economic activity in Alberta.[26] To pursue this goal, budgetary measures have included assistance to small businesses and industries, with preferences to firms outside the large urban centres, and such measures as family farm and rural development, northern development, assistance to municipalities, and the construction of local and regional airports.

The economic goals are clearly based upon a longer-term outlook or vision of the Alberta economy. In 1972 the first budget of the Lougheed government stated categorically that future growth and prosperity depended on the government's ability to guide the economy through the transition from a resource and agricultural orientation to a balanced economy of primary industry and secondary manufacturing. To do this, the role of the provincial government was changed to reflect the "partnership" of the people of Alberta with industry. The 1973 budget planned for participation by the government in the development of energy resources and in pricing decisions to ensure that Alberta received "fair value" for its resources. An active yet facilitative role for the provincial

government was viewed as essential because of geographic and regional disadvantages, and because of the need to assert and protect the province's resource ownership rights against a federal Liberal government which had not, in Alberta's opinion, respected these rights.[27]

The rhetoric and scope of social policy goals have undergone some changes in Alberta budget speeches. During the 1960s and into the 1970s, social policy writ large was referred to as "human resources" or "human resource development," whereas more recent budgets have spoken of "programs for people." In addition, more recent budgetary social goal statements have referred to a wider range of specific clienteles and target groups. While earlier budgets talked about the people of Alberta in broad terms with respect to social policy, budgets today contain fiscal measures for single-parent families, the handicapped, consumers, senior citizens, tenants, children and other groups. From about the mid-1970s onward, more and more specific client groups were being recognized in budgets.

There is no corresponding grand philosophy or vision of social development and policy in Alberta budget statements. The status of social policy and particular social goals appears to be dependent upon political fashion and pressure, and economic conditions. Some goals, such as environmental protection (which was a priority in the early to mid-1970s), have declined, relatively speaking. Other goals, such as affordable housing, have been periodic priorities moving up and down the policy and budgetary agenda. In certain years (e.g., 1978 and 1982) social capital expenditures, such as the construction of hospitals, courts, nursing homes, schools, and university and vocational facilities, have been used as part of the government's fiscal policy. In other years (e.g., 1976 and 1983) social programs have been the object of government restraint policy.

British Columbia

Under successive Social Credit governments in British Columbia, the fundamental and enduring priorities have dealt with fiscal policy and economic/resource development. The financial policies of W.A.C. Bennett from 1952 to 1972 were based on a "pay as you go" budget policy (all capital expenditures being from current revenues), on balanced annual budgets, no government debt, maintenance of modest cash reserves, and economic expansion through capital investment by provincial Crown corporations run by means of "sound" business practices.[28] Since 1975, the long-term fiscal objectives of the Bill Bennett government have been to:

- correct the $405-million deficit incurred by the Barrett government during the 1975/76 fiscal year;

- establish a better balance in the economy between the public and private sectors; and
- provide tax relief to bolster individual incomes, increase consumer purchasing power, and provide important economic development incentives.[29]

A Ministry of Finance budget paper, which described the implementation of these priorities and recent fiscal policy directions, stated:

> Not all these objectives could be pursued at once. In 1976 the Province initiated a program of spending restraint but was forced to raise several tax rates. These measures were considered necessary to restore confidence in the B.C. economy and to strengthen the fiscal position of the government.
>
> As the economy improved, successive budgets have introduced measures to lower taxes and increase tax expenditures. . . . In fact, for several years the economy has recovered with such strength that revenue surpluses have been generated and these have been returned to the public in the form of special grants, programs and services.[30]

Indeed, since late 1975, when the Bill Bennett government took office, government restraint has been a major theme and priority. This is clearly evident in the budgets of 1979, 1981, 1982, 1983 and 1984. As we shall discuss in more detail in Chapter 9, this restraint policy has been pursued in order to reduce the deficit and establish a better balance between the public and private sectors. Economic development and employment stimulation have been high priority areas in all the budgets of Bill Bennett's administration. Social policy was a priority in budgets of the late 1970s, but it has been a lower priority in recent budgets.

In the B.C. budget speeches of the 1960s, economic development was referred to as "provincial development." From the province's perspective, the main aim of transportation, communications and resources policy was "the provision of a positive framework for the orderly development and marketing of . . . natural resources."[31] The tone in these speeches was upbeat, confident, and proud of the government's and the economy's performance, as well as being very optimistic about the future. The economic goals that were expressed were usually either vague long-term objectives or specific short-term goals dealing with particular projects. Through the 1970s and into the 1980s, economic and fiscal policy objectives did not drastically change, though a few ones appeared.

The basic economic goals that can be discerned from recent budgets include many familiar ones: to create jobs; to develop and diversify the economy; to develop and conserve energy resources; to manage the natural resources heritage of the province; to assist small businesses; and to reduce or contain inflation. A newer goal, expressed for example in the 1982 budget, has been to develop training programs in order to avoid shortages of skills in the B.C. economy. In the budget speeches of

the 1980s, economic policy has been referred to as "resource management and economic development."

The general concept of social policy has changed somewhat in B.C. budgets. In the 1960s, social policy was called "human betterment" and it referred to the activities of education, health and welfare. Today, in the mid-1980s, B.C. budgets call social policy "social services," and these comprise the ministries of health, education, human resources, universities, science and communications, and the attorney general. Thus, the organizational and programmatic scope of B.C. social policy has been expanded to include notions of research, justice and cultural policy, and — as in most other provinces — the term "welfare department" has been replaced with one that is believed to have more acceptable and neutral connotations.

As in Alberta, B.C. budgets have labelled social initiatives as "programs for people," though the 1980 budget speech spoke of "investment in people." This change in language may signify a subtle shift in outlook regarding social policy. It could suggest a change in the priorities of programs, types of expenditure, and types of client group within the provincial social policy sector. Within education, for example, there has been a relative shift in expenditure priority toward post-secondary colleges and institutes and technical-education programs. To a large degree, of course, this is accounted for by the changing age structure of the population. At the same time, increased capital spending on education construction and expanded operating expenditures on training and retraining programs have been intended to avoid skill shortages, help create jobs, and stimulate the provincial economy.[32] In short, such social measures are directed toward economic management.

British Columbia's 1983 budget suggests a further stage in the evolution of provincial social policy. While most appropriations were limited to a 1.4 percent increase, "core social programs" were to be preserved and to be increased by 8.1 percent. Yet some important social rights and regulatory agencies were to be reduced or eliminated. The Human Rights Commission and Rentalsman were to be closed, and there were to be cutbacks in the Ministry of the Attorney General, with more emphasis on private sector legal advice (see Chapter 9). This suggests a greater emphasis on the social security goal of providing a minimum standard of living, with a de-emphasis on the goal of bringing about greater equality of treatment, opportunity and rights.

Nova Scotia

In surveying Nova Scotia budgets, one is struck by the finance ministers' continual preoccupation with fiscal restraint and responsibility. This permanent priority undoubtedly reflects the difficulties of budgeting in a

disadvantaged region. Since the early 1970s, Nova Scotia budgets have been mainly economic budgets in terms of policy priorities and preoccupations. Basic priorities have included economic development, maintaining necessary services in the face of restraints, containing inflation, and supporting primary resources development (fishing, farming, mining) — the backbone of the province's economy.

With the change of government in 1978 came a change in budget speech style and content. As noted earlier in this chapter, there was considerable change in tone from the Regan government's apparent fatalism about vulnerability to external economic forces. The new elected Buchanan government's priority was to place greater reliance on the private sector as the "prime engine" of the economy. "Unless the private sector is vigorous enough to assume a leadership role in our provincial economy, Nova Scotia will face a long period of below-average prospects." The government saw its role as establishing an economic framework that would allow technological advances and innovations.

Another priority of the Buchanan government has been to maximize its economic and fiscal relationship with Ottawa. The Office of Intergovernmental Affairs was created in 1979 to help prevent a piecemeal approach and missed opportunities. The general fiscal philosophy of the government was expressed in the 1980 budget as being "to develop, together with the private sector, our own fiscal self-reliance based on our known and potential natural resources and on our own desire to control and manage these resources to the maximum benefit of all Nova Scotians." The persistent goals of economic policy have been to attract private investment, to support resources development, and to create new employment. In recent budgets the expression of goals and measures has become more specific to key sectors or ideas: to promote the sale of Nova Scotia's manufactured goods; to stimulate secondary manufacturing; to sponsor the modernization of rural industries; to broaden the revenue base; and to enable Nova Scotians to obtain jobs both onshore and offshore through a labour training program in new energy technologies. A rising priority since the mid-1970s has been to encourage and maximize offshore oil and natural gas development potential. Depending on economic conditions, the employment goal has been variously expressed as creating new jobs, encouraging job creation, easing unemployment, or ensuring job stability.

The basic social policy priority running through Nova Scotia budgets has been a concern with protecting people from adverse economic conditions (unemployment, recession, inflation). In particular, the aim has been to assist the most vulnerable people and to shield them from further hardships.[33] A "fiscal welfare" objective which is periodically stated in budgets is to avoid tax increases in areas that affect the

necessities of life. Key client groups identified in budgetary measures usually include senior citizens, disabled persons, and the young unemployed. Senior citizens in particular have received new or enriched measures in terms of property tax credits, rental subsidies, a homemakers' program, and supplementary assistance.

Finally, education policy in Nova Scotia has witnessed some changes in priority and outlook. In the 1975 and 1976 budgets there were restraints in the areas of school construction, student aid, scholarships and libraries. In more recent budgets, education policy has been more closely linked to employment policy and labour market considerations. Education and manpower training were the top priorities in the 1982 budget. A restructuring of funding between the Departments of Education and Labour and Manpower was announced to ensure that the planning, organization, promotion and direction of training and skill upgrading would fulfill the emerging needs of industry. Recent budgets have provided additional allocations to vocational training schools and introduced a comprehensive manpower training program. Investment in "human resource potential" for employment and job stability has become part of the budgetary lexicon in Nova Scotia in the 1980s.

Ontario

As in other Canadian provinces, Ontario's budgetary priorities in the 1960s were education, health, social services and housing. Municipal assistance was an additional priority (as it also was in Quebec). The lists of priorities and initiatives in Ontario budgets are generally longer than those in the budgets of other provinces. This probably reflects the size and complexity of Ontario's economy and society, the fiscal capacity of the provincial government, and the government's sector-selective fiscal policy of targeting revenue and expenditure measures to particular sectors and groups.

Befitting the Ontario government's "Red Tory" political culture and tenure in office, its general priority and budgetary agenda has demonstrated considerable stability and continuity.[34] A fairly constant priority since at least the late 1960s has been government restraint and austerity. This fact raises questions about the real meaning or meanings of such concepts as restraint. We shall explore this issue in Chapter 9. Other continuing aims and priorities include achieving full employment, attracting investment, promoting exports, and encouraging productivity. Ontario budgets are very much economic management documents.

Since the late 1960s there has also been a degree of orderly change in the ranking of budgetary priorities. Episodic priority areas linked to the business and electoral cycle include housing (home buyers, tenants), aiding the elderly, and fighting inflation and offsetting some of its effects on certain groups. Assistance to local government has been a declining

priority since the mid-1970s, while rising priority areas in the 1980s have included energy and industrial policy.

A number of Ontario budgets contain systematic statements of economic goals. The 1976 budget, for example, discussed the need for a national economic policy with the following goals: cutting down the rate of growth in government spending; a more "realistic" energy policy so as not to hinder exporting; developing new high technology industries; improving productivity; and revitalizing the auto industry. In the 1978 budget, an economic strategy for Canada and Ontario was presented. The following goals were put forth: to encourage price stability; to increase private investment; to promote exports and replace imports; and to reduce regional disparities. Priority goal statements like these have also been made by the Ontario premier at First Ministers' Conferences (premiers' conferences) and in keynote addresses to major provincial interest groups.

Economic policy priorities have been generally geared to demand-management goals — namely, economic growth, full employment (the 1973 budget stated that "any unemployment figure in excess of three percent is unacceptable") and price stability. In the mid- to late 1970s there emerged a more explicit concern for some supply-oriented economic management priorities — namely energy, equity, industrial policy (research and development, high technology) and labour policy (training and retraining). Economic goals at a secondary or tertiary level of priority include the promotion of regional development within the Ontario economy, restriction and/or reduction of foreign ownership and control, preservation and conservation of the environment, and domestic processing of natural resources. Indeed, the 1978 budget stated: "We cannot afford to let a concern about a 'branch plant economy' limit the potential which will flow to all Canadians."

The most striking feature about Ontario social priorities is the extent to which social policy has been used as an economic management tool. In a real sense, the basic priority of social policy has been to support economic and fiscal policy goals. Provincial social programs have been manipulated to serve the purposes of government restraint, anti-inflation policy and employment policy, to maintain or stimulate demand in housing markets, and to maintain stability in incomes. This certainly indicates the effect of Keynesian economics on modern social policy.[35] However, the scope of social policy in Ontario was extended in the 1970s to include quality-of-life goals dealing with culture, recreation and multiculturalism. Consequently, new ministries and agencies were established. Furthermore, new social policy instruments were introduced, such as a sales tax credit for the elderly and property tax credits for lower income groups. The recent social policy agenda in Ontario has entailed a renewed emphasis on housing, daycare and youth, as well as continued concerns about cost control in the education and health fields.

Quebec

Despite three changes in the party governing Quebec since the late 1960s, budgetary priorities and directions have remained remarkably the same. Government restraint has been a theme in budgets of the late 1960s and early 1970s, the latter half of the 1970s, and into the 1980s. The language of this restraint priority has changed from simply controlling the rate of increase in government spending to more specific objectives such as cutting down or rolling back salary increases in the public sector and trimming the actuarial deficit of the government-administered pension funds. Other persistent priority areas have been tax reform to reduce the heavy burden on provincial residents and businesses, municipal fiscal reform in order to enlarge the fiscal resources of municipalities, and economic development.

Within economic policy, several goals can be noted. Diversification of the Quebec economy has been an intermittent priority, and some budgetary initiatives (1968, 1977) have been designed to promote secondary manufacturing and greater processing of resources such as asbestos. In comparison with the Lougheed government in Alberta, diversification has not been as dominant a theme or passion in Quebec budget speeches. The related goal of fostering the decentralization of industry and promoting regional economic development in Quebec was addressed in budgets of the late 1960s and early 1970s, but since then it seems to have slipped somewhat down the policy agenda.

A fundamental and continual objective of Quebec economic policy (and one relatively unique to Quebec) has been to promote economic expansion through a sustained high level of capital expenditure in the public sector and in the para-public sector of government-owned corporations. Another persistent concern expressed in Quebec budgets has been to keep the tax system competitive.[36]

Since the mid-1970s, at least three other economic policy concerns have emerged as budgetary priorities. One has been to encourage the transformation/reorganization/modernization of the Quebec industrial structure. More specifically, budgetary measures have been directed at technology conversion in the iron and steel industry and allied companies, and in the textile, footwear, clothing and furniture industries. A second policy concern, associated in large part with the prudent management theme of the Parizeau budgets, has been to make government-owned enterprises and corporations run on a "profitable" basis. A third relatively recent priority has been the rationalization of government subsidies. The 1977 Quebec budget announced that the newly elected Lévesque government was not interested in firms that were not profitable and whose leaders were dependent on the state for support. State "handouts" were questioned in the 1978 budget. The next budget served notice that certain industries could no longer rely on "exceptional"

government aid. Then the 1980 budget declared the government's intention to move away from "social welfare" for farmers and business people, and toward profitable investments.

This theme of rationalizing government subsidies to business was also articulated in Alberta, B.C., and Ontario budgets around the same time. The 1979 Alberta budget stated that industrial policy should be to provide incentives to viable enterprises rather than permanently subsidizing marginal activities. British Columbia's 1978 budget basically said that it would not back losers; the government would build on B.C. strengths rather than attempting to hide weaknesses — which meant sound long-term investments rather than short-term protection for industries with no future. Under the priority of economic efficiency, the 1977 Ontario budget said that the province wanted to move away from squandering precious capital resources on fostering inefficient industry. The budget said that Ontario would make a concerted effort to resist subsidization and feather-bedding, in order to promote healthy, efficient and productive industries. Thus, Quebec and other provinces began targeting industrial incentives more to sectors in which they enjoyed special skills and advantages, while continuing with longer-term investments.

With respect to social policy, the 1972 Quebec budget marked a major decision to shift priority resources toward economic expansion and job creation, and away from education, health and social welfare. That budget argued that "the social profitability of investment made in these sectors is lower than was the case at the beginning of the 1960s when these areas were far from satisfactory. Therefore this evolution prompts us to invest, from now on, in other sectors we deem of primary importance at this time." For example, education reform, which had been a high priority in the 1960s, was to face cuts to free up funds for job creation programs. The Quebec finance minister said the recognition of this need to restructure expenditures marked an important step in the evolution of Quebec society. Indeed, in the 1970s and 1980s, social policy figured as a major positive priority in only a few Quebec budgets. Most have instead emphasized economic issues — inflation, industrial development, employment, and government fiscal responsibility.

Social policy has been a negative priority in a number of Quebec budgets in the sense that various social program areas have been identified as key objects of austerity measures. Under conditions of restraint, a social policy objective expressed in recent budgets has been to curb abuses in the social welfare system. The budgetary "losers" in the social policy field include hospital staff, welfare recipients and education personnel. However, there have been some "winners" too, either in the sense of being shielded from the limits placed on other areas or in receiving additional resources. These include local community services such as daycare and care for the elderly, as well as youth employment programs. In addition, housing policy in the form of residential con-

struction measures has been an instrument of economic recovery and public investment strategy in the 1980s.

Conclusions

This discussion of provincial budgetary priorities and goals permits three general observations. The first is that all the provinces have been expressing and pursuing an expanding range of policy objectives in their budgets. By the 1980s, a much larger number of economic and social goals, values, and interests has been impinging on provincial budgeting than in the 1960s or earlier. The second point is that economic priorities have dominated most provincial budgets in recent years, and these priorities have pursued the traditional objectives of full employment, price stability and economic growth. In addition, a more explicit concern for some supply-management issues is evident from about the mid-1970s onward. Our third general observation is that most budgetary expressions of priorities and goals are little more than statements of good intentions, vague aspirations and political principles. In a limited sense, this constitutes a loose form of government planning and it may provide the broad parameters within which major revenue and expenditure choices can be made. Few provincial budgets could be labelled as somewhat more comprehensive planning frameworks, and they seem to occur with the arrival of a new government (Alberta 1972 and 1973 budgets, Nova Scotia 1979 budget) or a government with a new mandate which sees the need for some drastic measures (B.C. budgets of 1983 and 1984). More commonly, provincial governments have increasingly attempted to pursue a wide array of goals and priorities concurrently. More than ever, this makes provincial budgeting a complex and political process.

Electoral-Fiscal Cycles[37]

Intersecting with the budgetary dynamics inherent in the limited practice of Keynesian policy, and with the art and craft of goal setting and tactical budgetary communication, are the dynamics that arise from electoral-fiscal cycles. Specifically, we are interested in the question of whether the patterns of expenditures and revenues are affected by the proximity of an election. The hypothesis we have tested can be stated as follows. In an effort to attract more votes, incumbent governments will enhance service levels and provide new services immediately prior to an election, and for the same reason will restrain tax increases (or announce tax reductions) in a pre-election period. Thus, an electoral cycle around the trend lines of expenditures and revenues should be observable.

The theory behind this hypothesis can be summarized in two points. First, government spending and taxation instruments are manipulated to

garner votes for the governing party. This point is noted in the literature about public choice, which hypothesizes that self-interest can explain the actions of politicians.[38] However, the hypothesis implies more than behaviour motivated by self-interest. It also implies that voters' memories are uneven, that they remember the recent past better than the distant past. If memories were even, there would be no reason to cluster "goodies" in the period just prior to an election.[39]

To test the hypothesis of an electoral-fiscal cycle, we examined the total expenditure and revenue patterns of the five case-study provinces and those of the federal government. The data covered the period from 1959/60 to 1981/82, a period that included approximately six or seven electoral cycles for each jurisdiction. The data were pooled to provide a better statistical sample of 33 provincial electoral cycles (or parts of cycles). With the federal level included, there were 41 cycles.

The dependent variables were defined as deviations in the spending or revenue pattern of a particular year compared to the trend of the electoral period of that government. Two dependent variables were defined for each of the expenditure and revenue patterns:

- the percentage change in total constant dollar spending (revenue) in a particular year, minus the average annual percentage change in total constant dollar spending (revenue) over the relevant electoral period; and
- the percentage change in per capita constant dollar spending (revenue) in a particular year, minus the average annual percentage change in per capita constant dollar spending (revenue) over the relevant electoral period.

The dependent variables were defined in this way so as to note differences in spending (revenue) level among jurisdictions and differences among governments within one jurisdiction. We are not concerned here with the trend but with the possible cycle around any given trend.

Independent variables in the regression equations included the percentage change in gross national/provincial expenditure, the unemployment rate, provincial dichotomous variables, a time trend variable, and a series of dichotomous variables defining the number of years since the last election. The equations were estimated first with only the provincial jurisdictions and then with both the provincial and federal levels.

The estimated regression equations support the hypothesis of an expenditure electoral cycle but not of a revenue cycle. The increase in spending before an election was significantly greater (on the order of 4 percentage points) than the rate of increase in spending over the entire electoral cycle, while on the revenue side no systematic deviations from the trend were observed. This result is not surprising in that if electoral fiscal behaviour does exist, one would expect it to be manifested in expenditures more than in revenues. Expenditure instruments are rela-

tively easier to target toward marginal voting groups and geographic regions. Specific expenditure commitments can often be of shorter duration and can have smaller overall impact on a government's fiscal position than any possible tax reductions that may be contemplated. More electoral responsiveness on the revenue side may become evident in the future, since budgeting under restraint is not the same as it was in the past. Restraint conditions and more dramatic demands for new revenues to bail out provinces in financial stress, as well as to finance any new mandates, may produce a stronger relationship between revenue budgeting and the electoral cycle.

Overall, the evidence that electoral calculations influence expenditure budgeting to some extent is consistent with the often-repeated comment that the time horizons of governments extend only as far as the next election. However, we do not wish to overstate the case. The vast bulk of a typical spending program is locked in by the requirements of basic services, intergovernmental agreements, and the like. Only a very small margin is typically adjustable on a short-term basis. This analysis suggests that electoral calculus is an important factor in determining these marginal decisions.

The Internal Dynamics of Provincial Governments

Provincial governments are not unitary actors or simple systems. In fact, they comprise a complex amalgam of individuals, organizations, goals, interests, processes, clients and policy instrumentalities. Among other things, the provincial budget reflects a government's efforts to manage competing elements in its administrative and political systems. To understand provincial budgeting properly, therefore, we must consider the forces that give rise to internal conflict and competition as well as coordination and cooperation. In short, we must examine the power dynamics within provincial governments.

Each province operates under a parliamentary system of government. The premier and cabinet are the dominant governmental forces in the policy and budgetary processes. They are at the centre of a provincial government and its resource allocation process. As at the federal level, the executive dominates the policy process. Indeed, writers on provincial politics generally agree that provincial cabinets are more dominant in their political system than the federal cabinet is at the national level. Chandler and Chandler state that "shorter sessions, fewer backbench resources, greater ideological convergence, and a tendency towards one-party dominance and weak Oppositions have traditionally combined to make provincial legislatures extremely pliable in the face of Cabinet dictates."[40] Other factors that we would add to explain the executive dominance of the budgetary process include the relatively large size of provincial cabinets, the longer tenure of provincial finance

ministers, the smaller size and complexity of provincial public sectors, and the professionalization of policy advice.

As the portraits of leadership style in Chapter 7 showed, premiers are the central figures in Canadian provincial governments and politics. They normally have high public visibility and standing, and many have enjoyed long tenures in office. Premiers occupy a pre-eminent position within their cabinets and governmental systems, similar to the role of a prime minister. They are the head of their party and of their government, they choose and alter their cabinets, they rule their cabinets and cabinet committee systems, they can decide when to call elections, and they can appoint a number of people to senior positions within their bureaucracies and can make appointments to a variety of agencies, boards, tribunals, and commissions.[41]

The premier of a province is formally at the apex of the budgetary process. Most premiers chair the full cabinet, all chair an inner-cabinet planning and priorities committee, and some sit on the Treasury Board committee of their cabinet. In addition, several premiers have held the finance/treasury portfolio in their government. Modern examples include Ross Thatcher in Saskatchewan, Duff Roblin and Edward Schreyer in Manitoba, W.A.C. Bennett and Dave Barrett in British Columbia, Joey Smallwood in Newfoundland, Robert Bourassa in Quebec, and John Buchanan in Nova Scotia.

Provincial finance ministers are normally influential members of cabinet because of their portfolio and, in many cases, because of their fairly long tenure. Over the 1968–84 period, the average tenure of provincial finance ministers or treasurers in the jurisdictions under study was nearly twice as long as the average for federal finance ministers. Historically, ministerial turnover among provincial finance ministers is far less frequent than that of economic policy leaders at the federal level and that of their provincial cabinet colleagues.[42] A number of recent provincial finance ministers have brought down five or six annual budgets and some have brought down even more. Provincial finance ministers generally have greater political influence than other ministers, since greater permanence can secure political learning and leverage vis-à-vis the deputy minister and/or other ministers.

Nonetheless, the finance minister of a province faces a variety of serious and complex problems in developing both the revenue and the expenditure side of the budget:

> First is the necessity to raise funds, by public borrowing if necessary, when revenues fall short of expenditure needs. Then the revenues must be protected from the raids of colleagues when a surplus is forecast. The Minister must be flexible enough to respond to sharp changes in the economic climate that affect the revenue position and must be able to deal with the needs for working funds for the increasing number of governmental commercial operations. And, by no means least, the provincial Minister of

> Finance must be able to deal with the Government of Canada, for provincial revenues are closely tied to federal finances through collection agreements, equalization payments, and other financial programs.[43]

Moreover, provincial finance ministers must try to reconcile and coordinate the expenditure needs and requests of many government departments; convince colleagues of the constraints and consequences associated with deficits; and deal with vigorous provincial employees' associations that have collective bargaining privileges. Provincial finance ministers must also worry about the provincial credit rating set by agencies like Standard and Poor's. The lowering of a provincial rating can be costly in terms of obtaining financing, and this risk obviously conditions their willingness to incur further debt. Thus, a finance minister who does the job well can become a cabinet's least popular member because of having to say no to fellow cabinet ministers' spending proposals.

There is considerable variation among the provinces in terms of the number of personnel and the size of budgets. Of the five provinces under study here, Nova Scotia's public sector (with nearly 22,000 employees) is about one-half the size of B.C.'s, one-third the size of Alberta's, approximately one-quarter the size of Quebec's, and one-fifth the size of Ontario's.[44] Nova Scotia's 1984/85 budget of $3 billion is roughly one-quarter of the size of the Alberta and B.C. budgets and about one-eighth the size of the Ontario and Quebec budgets. The figures for each of the provinces are, of course, considerably smaller than those of the federal government, but in total they are larger.

The relatively smaller size of provincial bureaucracies may have important consequences for budgeting and policy making. Schultz has hypothesized that it may be easier to reconcile internal conflict at the provincial level than at the federal level, because of the less complex range of interests involved and the less developed bureaucratic nature of provincial governments.[45] Savoie has argued that the smaller size of provincial governments means (at least in Atlantic Canada, the subject of his analysis) that decision making is a far less complex and involved process, and is therefore faster, and that there is more frequent and closer interaction between provincial cabinet ministers and their departmental officials on new policy initiatives, administrative matters, and the preparation of departmental budgets.[46] Similarly, Burns, in discussing provincial expenditure budgeting, has stated:

> While the process appears to be highly structured and complex, it should be remembered that with a very few exceptions we are dealing in the provinces with relatively compact organizations, and a good deal of informal interchange that takes place between the departments and the central agencies and between the central agencies themselves in the course of the budget preparation is an important part of the operation.[47]

Nevertheless, our five case-study provinces are the biggest employers,

spenders and taxers at the provincial level in Canada. They are all large, complex systems, though of varying size and complexity. Each provincial public sector comprises twenty-odd departments/ministries, several central agencies, a cabinet committee system, and a large stable of agencies, enterprises, councils and foundations. Furthermore, the organizations and systems of provincial governments have been experiencing a major process of bureaucratization in recent decades. In all provinces there has been further specialization of labour in cabinet and departments, new levels or hierarchies of authority relationships have been created, additional procedures and manuals of rules have been developed to govern activities and relationships, and support staff components have been established to maintain and coordinate administrative and management systems.

By the early 1980s, all the provinces had introduced cabinet committee systems with a planning/policy/priorities committee or board chaired by the premier, a new or strengthened management/treasury board concerned with expenditure control, and other standing committees and special committees of cabinet. The overall size of provincial cabinets has increased markedly in recent decades. Since 1945, most cabinets have doubled or tripled in size, reflecting the growing size and responsibilities of the provinces. As of 1983, the size of cabinets was as follows: Alberta, 30 ministers; B.C., 19; Nova Scotia, 23; Ontario, 29; and Quebec, 26. Provincial cabinets commonly represent a very large component of the governing party's elected membership and indeed a substantial proportion of the total membership in the legislature. Currently, the cabinet, as a percentage of total legislative members, ranges from 21 percent in Ontario to 44 percent in Nova Scotia. The relatively large size of provincial cabinets gives premiers considerable control over their own party caucuses and legislative assemblies.

All the provinces have increased support staff to their cabinets since the mid-1970s, although such executive secretariats and central agencies have been subject to restraint and have recently decreased in size. Moreover, all have experimented with (and adopted into their budgetary systems to various degrees) planning and programming elements and various evaluation and audit techniques; and all have recruited officials who are expert in these techniques and processes. Two provinces, Ontario and Quebec, have also established horizontal policy-coordinating portfolios. Overall, provincial governments have been built into mature institutions.[48]

Consequently, the annual budgetary cycle in all the provinces has become more formal, more specialized, more sophisticated — in a word, more complex. There are more vetting centres within departments and within policy secretariats, central agencies, and committees of cabinet. The budget cycle has become a more bureaucratized event but one that is still essentially "a regular focus of conflict and bargaining as

agencies and departments strive to defend and increase their resources while central agencies endeavor to impose government priorities and budgetary constraint."[49]

Bryden has commented that "secretariats for Cabinet and their committees, in particular Treasury/Management Board secretariats, have come to occupy a more and more important place in the policy-making picture. Critics argue that this is leading to an undesirable concentration of power at the centre."[50] Burns, however, stresses the possible limitations on the power of provincial central agencies in the budgetary process:

> The officials of a treasury board or any similar central control agency are, of course, limited in the influence they can exert but, if given a reasonably clear understanding of the government's intentions, they have usually been able to indicate with some effect where changes in the departmental submissions were desirable. Much depends on the importance that the Cabinet and the Minister of Finance in particular attach to this stage of the process. No matter how capable the staff of the control agency, unless they receive government backing, the extent of their authority over departments will be strictly limited.[51]

The comments by Bryden and Burns, with their apparently contending perspectives, highlight the need to recognize the implementation and control stage of the budget cycle as a key component of the politics of budgeting. The management of budget implementation potentially provides the governing party with considerable power and leverage vis-à-vis both the legislature and the bureaucracy. The degree to which the implementation and control functions are exercised to carry out political will seems to depend on the premier's leadership style, on clear expression of governmental intentions and policy direction on fiscal matters, on the presence of capable analytical staff to aid the cabinet, and on cabinet support for the central agency role in budgeting. These internal dynamics are also influenced by the extent and form of pre-budget consultation with private interests.

Recent Developments in Pre-Budget Consultations

Traditionally, pre-budget consultations have been relatively closed processes influenced by the dictates of budget secrecy. Basically, the government has been reactive, receiving and responding to submissions and representations from individuals and interest groups, often on specific revenue and expenditure items. A newer type of pre-budget consultative process appears to be emerging in some provinces. This new approach is more open and visible, and involves the government, especially the key finance and treasury ministers, in a more proactive role — initiating special consultation exercises, floating trial balloons on fiscal policy and

inviting comments, using advisory committees and consultative bodies, and issuing discussion papers.

In Alberta, no special pre-budget consultation exercise is practised, though the government has very close contacts with the business sector, particularly the oil and gas industry and its service sectors. Some advance "testing of the political water" occurs with the Conservative caucus in the legislature, particularly to mute any unpleasant realities of the forthcoming budget. However, in the heyday of the mid- and late 1970s, Alberta budgets were rather pleasant occasions. If anything, the problems were reflected in expressions of dissatisfaction that more social spending was not occurring. The visible presence of the Heritage Fund showed that plenty of money was available. The counter argument that the fund was for a future "rainy day" when Alberta's non-renewable resources would be depleted was not always accepted. As to the tactical dimensions of the budgetary process, it is clear that in Alberta the budget is a major occasion in which the government seeks to obtain maximum political mileage. Much is also accomplished with off-budget announcements. Not only are favourable measures announced and trumpeted in the budget statement itself, but they are frequently hinted at so strongly and frequently in the month before the budget that the budget itself becomes, in the view of some, almost anticlimactic.

The Alberta government, however, embarked on a special consultation exercise with the release in July 1984 of a white paper entitled "Industrial and Science Strategy for Albertans, 1985–1990." The ideas and concepts proposed in the paper have been discussed and debated at a series of public meetings.[52] This, of course, is not basically a budgetary exercise, but it does reflect the need for a dominant government to re-establish itself in the wake of an increased rate of criticism since the 1982 recession and the fallout from the National Energy Program.

In British Columbia the budget process is generally very secretive. Despite some lip service to consultation, there is little formal and open pre-budget discussion. However, discreet consultations do take place with the Employers' Council and other business interests in the province. Perhaps as a substitute instrument, the Bennett government does a significant amount of polling, as do the Ontario and Quebec governments. An informal process of consultation and accountability has arisen between certain officials in the B.C. bureaucracy, the opposition and the press. Rumours, leaks and brown envelopes are sometimes the media of exchange. As in Alberta, the B.C. government has recently (autumn 1984) engaged in a round of pre-budget talks which the finance minister held on a government discussion paper on the business tax burden in the province. The finance minister travelled the province soliciting reaction and suggestions, as well as posing questions and options.[53] With respect to intergovernmental consultation, some does take place with Ottawa, but from B.C.'s viewpoint the federal Liberal

government failed to show any flexibility and did not really consult or negotiate on a number of major issues.[54]

Consultation has been of increased importance in the Ontario budgetary process. Before the 1984 budget, the treasurer received over fifty representations from various organizations, ranging from the Conference Board and the C.D. Howe Research Institute to commercial banks and a large number of special interest groups. This active consultation process began with the 1975 budget. Views of the efficacy of the process vary widely. Officials tend to characterize it as largely a political show, noting that both the treasurer and the interest groups stood to gain from participating in the process. More particular views ranged from seeing the consultation process as a boring waste of time to recognizing that in many cases usable budgetary ideas did emerge from the sessions. The view was also expressed that in recent years this consultation process has been less important than at the outset, because government in general has been much more open and many of the groups have regular access to government on issues that concern them. However, for those groups that do not have regular channels into government, this formal consultation process is still important. In most cases the meetings are attended only by the treasurer and some of his senior officials. However, in some cases the minister in the policy area of concern also attends. The consultations, as one might expect, do not focus only on the upcoming budget. The groups take the opportunity to go over virtually everything that is of concern to them that they think involves the government in some way.

In Quebec, the Parti Québécois has made considerable use of consultations, including a variety of summit conferences, since it was first elected.[55] Two of these related specifically to budgetary perspectives, one in 1981 dealing with cutbacks in health, education and welfare, and the other in the spring of 1982 dealing with the financial crisis of the Quebec government. The government used the 1982 summit to prepare the terrain for its decision to reduce public sector wages in early 1983. It was one important sign of the rapprochement of the government with the business community. With respect to wider consultations, the Parti Québécois is known to use opinion polls extensively, and this polling has influenced its strategy of cutting back public sector wages and expenses without cutting services. The polls have shown that the Québécois were hostile to public servants and their strikes but were strongly attached to the public services they received.

The nature of consultation by the Quebec government led participants to comment on the overall strategy, which involved holding the line on the deficit, raising taxes as little as possible, and concentrating efforts on limiting the growth of expenditures. This strategy caused some concern within the party and the union movement, while it obtained the approval

of business leaders. A white paper on fiscal policy has been promised by the government.

With respect to intergovernmental consultation, Quebec governments over the years have paid a good deal of attention to municipal tax reform and have issued budget papers in recent years to invite input from municipal and urban community governments across the province. In terms of consultation with Ottawa, a constant theme in Quebec budget speeches has been provincial frustration and dissatisfaction with intergovernmental collaboration and bilateral negotiations.[56]

In Nova Scotia, the 1983 budget speech was the first in which the finance minister mentioned that he had met with members from the private sector to discuss issues of particular concern to them — namely the government deficit, departmental cost control, the size of the public service, and the level of civil service wages and salaries. The 1979 budget announced the creation of the Office of Intergovernmental Affairs to plan and oversee the province's economic and fiscal relationship with Ottawa. Moreover, this new office was designed to ensure ongoing contact with federal program planning and implementation in order to avoid missed opportunities.

Conclusions

In the three chapters on provincial budgeting we have presented, first, a basic inventory of its formal characteristics, followed by two groups of quite diverse evidence on budgetary dynamics. One should scarcely be surprised to find that varying shades of quantifiable, institutional and process "data" do not produce wholly consistent patterns. We are, in fact, trying to describe and explain the operation of ten political systems by examining five in somewhat greater detail.

The formal account in Chapter 6 showed the importance of powerful legal-constitutional practices and the general practice of an annual rhythm of budgets. Reforms were executive-centred rather than being intended to strengthen legislatures. When one adds the diverse kinds of evidence in Chapters 7 and 8, one sees the relative power of provincial executive-based budgeting reinforced by the greater premier-centred nature of budgeting. To this can be added the increased practice of Keynesian budgeting, but only of a limited and highly variable kind. The evidence suggests that the provinces can pursue countercyclical fiscal policy to only a limited extent.

The goals of budgeting have clearly broadened, as has the subtlety of the rhetoric in which goals are expressed, repackaged and recombined. The aggregate trend in outputs is basically similar across the provinces and thus shows evidence of much federal-provincial coordination, but this does not prevent considerable variation at the micro level of expen-

ditures, as befits the fact that there are different regional economies and political agendas. All provincial governments willingly succumb to the calculus of the electoral cycle with respect to expenditure budgeting. Finally, as at the federal level, there is some evidence of experimentation in formal pre-budget consultation, albeit of a highly varied, episodic kind in most provinces. In general, the dictates of budget secrecy apply, with all the attendant contributions to greater concentration of power within the cabinet.

Part IV

Application and Conclusions

Chapter 9

Restraint Budgeting:
An Application of the Three Themes

We begin the final part of this study with an integrated examination of restraint budgeting. This warrants treatment because the term "restraint" has been applied, as an overall label, to many recent debates on budgeting. We examine it in relation to the three thematic issues on which the study focusses. This gives us the opportunity to review the data on both federal and provincial budgeting with the concept of restraint in mind.

Before proceeding to our conclusions in Chapter 10 on the overall period covered, we apply the three themes to the frequent labelling of the 1980s as a restraint era. By this means we can demystify, at least partially, the concept of restraint as it applies to Canadian budgeting.

With respect to our theme of budgets as goal-setting and tactical occasions, we ask: What does restraint mean? Is it a recent phenomenon? How has restraint been expressed and defined in federal and provincial budgets? What restraint goals and rationales have been enunciated by Canadian governments?

With respect to our theme of budgetary reform in the context of the actual exercise of power and of governing, we ask: Does restraint lead to budgetary reform? What kinds of restraint budgeting efforts have been practised? How are fiscal policy instruments used to restrain the size and growth of government? Can the budgetary structures and processes in place be relied on to achieve restraint objectives, or have extraordinary budgetary procedures been adopted? Who and what is being restrained?

With respect to our theme of budgeting as a mechanism for intergovernmental coordination, we ask: Have federal and provincial governments coordinated their restraint policies? If they have, has this been done by anticipation, by consultation and negotiation, by reaction, or by

imposition? What does restraint budgeting tell us about the nature of coordination in a federal political system?

Two important limitations of this inquiry should be noted at the outset. While we consider the official goals of, and rationales for, government restraint, we do not investigate the causes of fiscal stress or the political arguments on the need for restraint. Moreover, while we address actual budgetary outputs of restraint policies, we do not examine the effects of these outputs on economic performance, social development or the political system.[1] We certainly refer, as we have in earlier chapters, to debates about these issues, but they are not our focus. Our interest here is in the behaviour of governments as revealed in their budgetary systems. Our focus is on the restraint practices of the Alberta, British Columbia, Nova Scotia, Ontario and Quebec provincial governments, and those of the federal government, since the mid-1970s.

Budgets as Goal-Setting and Tactical Occasions

The idea of restraint is a central concept in the budgetary politics of the 1980s. Restraint is a highly emotive and potentially controversial word. It is also a vague and woolly concept. Words and deeds are not necessarily linked in straightforward ways. Our first task, therefore, is to clarify the meaning of restraint and related concepts.

Clarifying the Concept of Restraint

There are a number of reasons why a state of conceptual confusion exists around the notion of restraint as a government response to fiscal stress and crisis. Often, general definitions of restraint are not given either in the academic literature or in government documents. Instead, specific examples and initiatives are provided that illustrate the concept but do not demarcate it. In budgets and other political documents, the restraint concept is frequently expressed in rhetorical and metaphorical terms. Such phrases as "a number of belts were tightened" or "departments were obliged to lose some weight" convey some sense of the meaning of restraint but do not define the concept. Still other budgetary definitions rely on value-laden terminology. Examples include "doing away with waste through sound administration," "cutting the fat from the system," "eliminating unproductive expenditures," "cutting personnel to a more reasonable level," and "pruning out deadwood."[2] These kinds of definition obviously express a normative position on restraint, contending that it is good, necessary and unavoidable. Unfortunately, such definitions do not offer an objective meaning of the concept. Another cause for conceptual confusion is that at one time or another in government budgets, the term "restraint" has been used interchangeably with "retrenchment," "cutback," "streamlining," "downsizing" and other

terms. More broadly, restraint is sometimes defined by finance ministers as exercising "fiscal responsibility" and practising "prudent financial management policies." In this sense, all budgets are restraint budgets, since all finance ministers wish to avoid both undue pessimism and wild over-optimism when preparing their budgets.

By definition, a budget sets the boundaries of expenditures and revenues by setting upper limits on spending, taxing and borrowing. It relates expenditures to specific activities (a process that, in principle, prevents public monies from being used for unauthorized purposes). It selects a few fiscal policy options and rejects many other suggestions and alternatives, and it may reserve certain funds for use at some future period. Consequently, restraint budgeting cannot be defined merely as controlling and rationing the allocation of public resources, since that is far too general and can apply to any budget. So when is restraint real, rather than just a ritual political dance?

There are solid political reasons why the meaning of restraint is in doubt. A number of provincial governments in both the "have" and "have not" jurisdictions have talked about restraint in nearly every budget since the 1960s at least. After all, no government could ever admit to the opposition, the voters, and the financial markets that it was unrestrained. Politicians and government officials employ ambiguous language because restraint is risky and is conflictual in nature. The politics of restraint are about who gets none or who gets less of what, when and how. It is a struggle over resources and values. Rhetoric may be used to deny, play down or facilitate the process of restraint programs. Vague and fuzzy language in setting restraint goals and announcing restraint policies can be useful for avoiding or reducing political opposition from government employees, unions, client groups, and others. Moreover, if such language implies values such as efficiency, productivity, and responsibility, it can help build support for restraint measures among a large segment of the community.

It is possible to identify several different ways in which the concept has been used by politicians and bureaucrats and has been expressed in government budgets. In Canada, restraint has been described and defined in terms of:

- increasing productivity;
- making choices between responsibilities and resources;
- balancing the budget;
- stabilizing the economy;
- limiting the relative size of the public sector;
- reducing the absolute size of the public sector;
- narrowing the revenue-expenditure gap and reducing the deficit;
- discouraging public demands on, and expectations of, action from government;

- non-intervention and non-decision making by government;
- postponing the implementation of electoral promises and delaying efforts to meet certain policy goals by particular dates;
- redistributing expenditures across government programs;
- a way of life and a fact of the new economic reality.

These various meanings of restraint, and indeed the issue of the relationship between restraint conditions and the need for reform, are associated with the main historical budget reform states discussed in Chapter 2. Classical budgeting practice, for example, has as its central tenet the annual balanced *budget*: governments should be prudent and should be run like a household. The core ideas of classic restraint are honesty, probity and fiscal rectitude. The main types of budget officials involved are accountants, controllers, auditors and clerks. Typical restraint methods include pre-audit, internal audit, and detailed controls and checks.

On the other hand, Keynesian restraint is based on the notion of the balanced *economy*. Basic values include stability and countercyclical activity: governments should be prudent and proactive over the business cycle. Economists are the central budget officials. Restraint methods primarily include automatic stabilizers. Then there is "rational" restraint, which arose in the 1960s around the idea of the just society and active government. A key idea was that knowledge was power. Officials involved in this type of restraint were mainly policy analysts, planners and advisors. Techniques included goal-setting and priority-setting exercises, and new budget systems and methods (e.g., the planning program budget, the zero-base budget, management by objectives, management by results).

The most recent budget reform stage also has a version of restraint. Based on a neo-conservative ethos, it views government as "the problem." The central idea of this type of restraint is the balanced *society*, which effectively means smaller governments and less state intervention. Core ideas include the inherent superiority of the private sector and market mechanisms in producing and allocating most goods and services. Budget officials involved under this type of governmental restraint are "value for money" auditors, program evaluators and efficiency consultants. Favoured restraint methods and techniques are privatization, deregulation, sunset provisions, and spending and tax limits.

Today, in the mid-1980s, restraint budgeting is a process for limiting and lessening the size and role of the public sector. A restraint budget attempts to keep public financial affairs under control by withholding and/or removing certain resources from government. A restraint policy is the authoritative restriction and reduction of public sector resources. The process of restraint budgeting entails dealing with fiscal stress or a fiscal crisis,[3] managing a deficit, and aligning budgets with available resources. An element of the contemporary restraint philosophy is a

Chart 9-1 Restraint Budgeting: Major Approaches and Methods

Approaches	Example Methods
1. Restriction	• Spending/Hiring/Tax Increase Limits
2. Freeze	• Consultant/Purchasing/Wage Freeze
3. Revenue Generation	• User Fees • Raising Taxes • Closing Tax Loopholes
4. Retrenchment	• Attrition • Salary and Contract Rollbacks • De-universalization of Programs
5. Termination	• Layoffs/Dismissals • Closure of Institutions • Cancellation of Programs
6. Privatization	• Selling Crown Corporations or Assets • Selling Crown Land • De-institutionalization of Clients • Contracting-out of Services

form of skepticism, a "show me" attitude toward programs, and an insistence that evaluation be conducted to support budgetary claims. A restraint budget seems to be a signal that government is primarily addressing economic problems. The fact that this has become the favoured signal (rather than, say, the Keynesian policy of increasing spending in order to reduce unemployment) suggests that monetarism and neo-conservative economic thinking now provide a main underpinning for budgeting.

Another way to see the meaning of restraint is to outline all the major strategies which governments can employ to limit and lessen the size and growth of the public sector. The range of meanings of restraint listed earlier presents Canadian governments with the opportunity and necessity to make a choice between the various approaches to restraint budgeting. Chart 9-1 presents the macro approaches to restraint budgeting, giving examples of each.

Restriction is the mildest form of restraint. This approach involves maintaining the base budget but slowing down the rate of growth in expenditures, personnel, services or taxes. This is still budgeting by addition, but to a more limited extent. Hence, restriction is incremental restraint or "decrementalism." The second major approach to restraint budgeting is the freeze. This is restraint as retention — keeping the status quo. The third approach is revenue generation. Although some observers and citizens may not regard a tax increase as evidence of government restraint, revenue generation is one way of restricting and reducing the government's cash requirements and the public debt. The next three approaches — retrenchment, termination and privatiza-

tion — are more severe forms of restraint, and all relate to the "downsizing" of the public sector in absolute terms. Retrenchment is the withdrawal of resources from the base budget of an agency, policy, program or activity. This is restraint as retraction. Inputs to (and possibly outputs of) the public sector are cut back and diminished. A reduction in the government work force would be done through planned attrition. As for termination, under this approach, policies, programs and staff are not simply cut back; they are cut out. This is restraint as revocation — government cancels or eliminates public activities. A reduction in the government work force would be done through firings and dismissals. Finally, there is privatization. Depending on one's interests and perspective, this could be regarded as the most severe or most welcome form of government restraint. Privatization is restraint as restitution. It concerns reinstating or giving back a function to its original and "proper" place, be it the family, the community at large, or the private business sector and market forces.

This classification of restraint approaches suggests several things: that restraint varies in scope (base budget or increment, and general versus targeted cuts), in austerity (from growth limits to layoffs), and in policy instruments (expenditure, revenue, regulation and public enterprise); that any of these approaches may involve efforts at increased program efficiency, reorganizations and policy mergers; that government restraint actions are related to the recognition and perception of fiscal stress; that restraint is a much broader concept than expenditure control or deficit reduction; and that restraint is the generic concept to describe this "universe" of phenomena, while terms like "retrenchment" and "termination" are subsets of restraint. Our classification also raises some questions relating to themes examined in earlier chapters: Has there been a sequence of approaches adopted by Canadian governments? Have governments preferred some methods over others? Has there been an overall similarity of policies on restraint facilitated by intergovernmental coordination? We shall explore these questions later in this chapter.

Restraint Rationales

Examining the official reasons for government restraint is an exercise in normative political analysis. Like other forms of resource allocation and rationing, restraint budgeting is a normative act. Restraint budgets announce intentions of what ought to be, articulate beliefs and assumptions about economic and social matters, and advance arguments and motives for action and inaction. Thus, a look at the rationales for restraint should help us better appreciate the grounds on which Canadian governments have justified restraint measures, the principles to which they commit themselves, and the nature of contemporary ideas on budgetary policy.[4]

All six governments under study have devoted some attention to explaining and defending their restraint initiatives. The reasons for restraint are generally given in budget speeches (e.g., British Columbia in 1983 and 1984), but they have also been provided in mini-budgets (Nova Scotia and Quebec), in background budget papers (Ontario and Alberta), and in a supplementary analysis to the expenditure plan (Ottawa). Both the quality and quantity of budgetary documentation on restraint vary across governments. Ontario has provided regular reports on the state of restraint in annual budget papers since 1975. Most other governments began justifying restraint practices in an explicit fashion only in the early 1980s. Nonetheless, an impressive array of arguments and ideas has been put forth by governments to explain why they were introducing or maintaining restraint.

Chart 9-2 shows 18 of the reasons that have been given to justify restraint budgeting in Canada. Some of the rationales have been given by all or most governments under study; other rationales have been used by only a few governments; still others are unique to one jurisdiction.

All or most governments have defended restraint on the following grounds: providing room for the private sector to borrow capital on the money markets, thereby relieving pressure on interest rates; reducing inflationary pressures and attitudes caused by "excessive" government spending; setting an example of tough and responsible leadership to all sectors during hard times; increasing the flexibility of government to undertake new measures; keeping tax levels competitive for businesses and manageable for individual taxpayers; providing the scope for tax cuts and/or tax expenditures to relieve upward pressures on costs and to promote economic growth; ensuring fairness in compensation levels between public and private sector employees; having to adapt and adjust to new economic realities and necessities; cleaning up the "financial disaster" of a previous government (e.g., British Columbia in 1975, Nova Scotia in 1972 and 1979, Quebec in 1970 and 1976, and Ottawa in 1979 and 1984).[5]

More particular arguments used by governments to justify public sector restraint relate to protecting government credit ratings (indeed, some jurisdictions such as Quebec and Nova Scotia have had their ratings downgraded in recent years); improving government productivity; offsetting cuts in federal transfers, particularly in health care; and developing fiscal autonomy vis-à-vis Ottawa.

Certain reasons for restraint have been unique to specific governments. In Alberta, the allocation of 30 percent of non-renewable resource revenue to the Heritage Fund (a form of restraint on the rate of increase of revenues and expenditures) was portrayed as "a safeguard against the risk of future generations of Albertans having to carry onerous tax burdens to maintain an unrealistically high level of government services which might become established by the excessive expenditure of revenue flowing from the sale of non-renewable assets."[6] In

CHART 9-2 Restraint Rationales of Selected Governments in Canada

	N.S.	Quebec	Ontario	Alberta	B.C.	Canada
What voters endorsed					X	
Avoid crowding-out private spending			X	X	X	X
Reduce inflation	X	X	X	X	X	X
Show leadership	X	X	X	X	X	X
Gain policy flexibility		X	X	X	X	X
Protect government credit rating	X		X	X	X	
Improve government productivity		X	X		X	
Government lacks built-in adjustment to market realities					X	
Protect future generations				X		
Keep tax burdens competitive and attract investment	X	X	X		X	X
Scope for tax cuts/expenditures		X	X		X	X
Clarify federal-provincial division of tasks						X
Offset federal cuts in transfer		X			X	
Develop fiscal autonomy	X	X				
Ensure fairness in compensation between public and private sector workers	X	X	X	X	X	X
Necessary for sovereignty-association		X				
Financial problems of previous government	X	X			X	X
Economic realities and necessities	X	X	X	X	X	X

British Columbia, the restraint budget and 26 bills tabled in the legislature in July 1983, shortly after the Bill Bennett government was returned with an increased majority, were described as being what the people had endorsed. The B.C. government argued that it had a strong electoral mandate to pursue its restraint policy. It also argued that restraint was needed because a government lacks built-in mechanisms to adjust to market realities.[7] The Trudeau government contended that restraint in transfer payments to the provinces would "bring about a clearer division of federal and provincial responsibilities which has been one of the stands in recent constitutional discussions."[8] Quebec budgets of the Parti Québécois government have argued that "the road to independence requires healthy financing" and "financial discipline."[9]

Budget statements on restraint policy express and emphasize several key ideas on governing. These include stability in prices, taxes and credit ratings; responsibility and leadership by government; policy responsiveness and flexibility; autonomy in fiscal matters; intergenerational and intersectoral equity; and efficiency and economic growth. Many of the rationales for restraint deal with promoting economic development in and through the private sector. At the same time, some rationales deal more directly with the public policy process. In this vein, the reason for restraint is to overcome the inertia of resource and organizational constraint, to give decision makers greater freedom to change priorities and programs and to undertake new policy initiatives, primarily to address employment and economic issues.

The nature of the rationales presented above indicates that all Canadian governments believe, to some degree, that the size and growth rate of the public sector has been an important contributing factor to the bouts of inflation, stagflation and recession since the mid-1970s. The federal and provincial governments have accepted the notion of "government overload" — that government has overcommitted itself, is too big, and is unable to respond effectively to public expectations and demands.[10] Hence, a central concept in restraint thinking is the idea of equilibrium or balance. Under restraint budgeting, governments are attempting to reduce their share of the total economy, or at least to restrict its growth. In large part, government restraint is a process of adjustment to achieve a preferred balance between the public and private sectors, between revenues and expenditures, between demands and resources, and between expectations and the ability to deliver on promises.

Government budgets and Throne speeches in recent years have enunciated several principles of economic management that relate to restraint policy and the idea of balance. These principles are: that sharp limits exist on what governments can do; that government must practise fiscal responsibility by restraining spending; that the "safety net" of social programs must be maintained; and that the private sector must continue to be the principal engine of economic growth and job creation in Canada. These are the core principles to which governments have committed themselves. To help determine how these principles have been translated into action, we turn now to an examination of the official goals of restraint policies.

Restraint Goals

In its June 1975 budget, the Government of Canada announced a policy of limiting the growth of public expenditure in line with the trend growth in the gross national product. This restraint goal preceded the introduction of the anti-inflation program of October 1975 but "became an integral part of that program because the growth of government expen-

diture has played a part in the inflationary process."[11] In fact, this objective of holding down the growth of spending within the trend growth of the economy has been the central and constant aim of federal restraint budgeting since 1975. Other restraint goals expressed by recent federal budgets have included the following: to reduce deficits but not threaten the recovery (1977, 1982 and 1983); to reduce the burden of government regulation; to follow, not lead, the private sector in setting the wages and salaries of federal employees (1978); and to achieve significant savings in transfers to the provincial governments (1980).

There is a notable difference in the restraint goals contained in the ill-fated Conservative budget of 1979 and subsequent Liberal budgets in the early 1980s. The Conservative budget stated that the fundamental objective of the government's fiscal plan was to bring about a steady reduction in the deficit. "To achieve this objective, a tight ceiling is placed on our expenditures. We will limit growth to 10 percent a year. This means no growth in expenditures after allowing for inflation."[12] Although it was not mentioned in the budget speech, the Conservatives also intended to reduce the size of the federal public service by eliminating 60,000 positions and by privatizing certain Crown corporations. When the Liberals returned to power in 1980, their Speech from the Throne declared that Canadians wanted more effective government, not less government. The 1980 budget argued that "only a modest reduction in the deficit is needed next year" and that the government planned to reduce the rate of growth of spending from 13 to 10 percent over the next three fiscal years.[13] Deficit reduction was not as high a priority and was not stated in as strict and specific terms under the Liberals. Overall, the main restraint goal of the federal government has been to restrict the growth rate of spending. Thus, Ottawa has adopted the mildest of the six major approaches to restraint.

During a period of fiscal restraint in the late 1960s, Alberta budgets set the goals of maintaining a balanced budget with no new tax or tax increases (1968) and keeping expenditure increases within increases in revenues (1969). Then in 1976, following a period of relatively rapid growth in Alberta's public sector, restraint goals began to appear regularly in budgets. The objectives were to "substantially restrain" the rate of increase in provincial spending (1976); "to guard against unrealistically high growth in government spending while maintaining a high level of service;" to hold increases to 10 percent with the exception of a few high priority programs in energy and housing (1977); to limit public sector compensation increases to 6 and 7 percent (1978 and 1979); to restrict increases in operating expenditure to the growth rate in Alberta's economy (1980); "to hold the average increase in the civil service to the rate of growth in the province's population" (1981); and to limit government wage settlements and grant increases for hospitals, schools and universities to 5 percent (1983). In addition, one of the basic objectives of

Alberta's Heritage Fund has been to provide a "savings trust account" for the time when oil and gas revenues decline. It has been described as a fund for investment, not expenditure.[14] Like Ottawa, the Alberta government has practised a mild form of restraint, focussing largely on transfer and operating expenditure growth rates.

In British Columbia, references to restraint have become more specific and stringent over the last several budgets. The long-standing commitment to a balanced budget and "pay-as-you-go" financing during the W.A.C. Bennett era became more qualified under both Dave Barrett and Bill Bennett. To reduce government demands and burdens on the economy, budgets in the late 1970s set the goals of holding provincial spending increases below the rate of increase in the gross provincial product; freezing or reducing taxes to provide more scope for putting resources to work; ensuring that compensation packages in the public sector did not rise faster than those in the private sector; and reducing paper flow in order to speed up response to individual requests and reduce the cost of complying with government regulations. More recent budgets, particularly those in 1983 and 1984, announced the more severe goals of retrenchment, termination and privatization. Compensation adjustments were to range from −5 percent to +5 percent and were to be tied to productivity improvements; the overall size of the public service establishment was to be reduced by 25 percent or 11,000 people; and committees, boards, commissions and agencies that exhibited "excessive use and employment of highly paid professional staff in support of regulatory processes" were to be cut. Premier Bennett has indicated that his goal is to eliminate the provincial debt by 1988.

The objectives expressed in Nova Scotia budgets reflect a comparatively mild approach to government restraint. Throughout the 1970s and into the 1980s, Nova Scotia budgets tried to avoid deficit financing in order to protect the province's credit rating; keep expenditure growth to a "minimum" or below revenue growth; refuse involvement in shared-cost programs in "non-essential" areas; and avoid major tax increases. Specific restraint targets have been announced only periodically. In 1972, government wage and salary increases were limited to an overall 5 percent, and in 1976 the public service was to be contained within 1 percent of its size at that time. To preserve essential services and shield Nova Scotians from further hardships following the 1981–82 recession, recent budgets have rejected massive cutbacks but have pledged to pursue restraint in operations in order to reduce the deficit. However, the net direct debt has increased significantly in recent years, and in 1983 Nova Scotia's credit rating was lowered from A+ to A on the U.S. money markets.

Ontario introduced a public sector restraint program in 1975. Prior to that, provincial budgets contained exhortations about holding down the public sector growth rate, containing the tax burden, and staying within

"prudent" financial limits. Since the mid-1970s, budgets have enunciated more specific restraint policies. The 1975 budget sought to reduce the size of the civil service by 2.5 percent and to control the growth in spending so that the public sector claim on the total output of the Ontario economy would not increase. The prime objective was to curb expenditure increases in order to constrain inflation. The restraint goal of the 1976 budget was to bring about a further reduction in the growth rate of provincial spending. The 1977 Ontario budget planned for a balanced budget in 1981, given favourable economic circumstances. (The last balanced budget in Ontario was the budget for the 1969–70 fiscal year.) This goal of balancing the budget was repeated in the 1978 budget, a background paper to which stated that "Ontario's long-run objective is to restore a more appropriate balance between the public and private sectors by reducing the burden of government spending and deficit financing."[15] To ensure the capacity to achieve a balanced budget, the 1979 budget endeavoured to hold spending growth well below revenue growth. The long-range objective was to achieve a gradual reduction in cash requirements rather than to target for specific revenue and expenditure growth rates.

Balancing a budget has been called the ultimate objective of restraint.[16] It is worth observing that Ontario and other governments in Canada are pursuing the goal of balancing an ever-expanding budget. The goal is not a substantially reduced budget but a balanced one at a higher level than at present. In the 1980 and 1981 Ontario budgets, however, the planned deficit was allowed to increase because of the deteriorating economic outlook. Consequently, the goal of balancing the budget was seriously delayed. More recent budgets have recast this goal in terms of resuming progress toward balancing the provincial budget over the medium term and reducing the deficit further as the economy expands.

The Ontario government, like other governments, has focussed primarily on restricting expenditure increases, although it has also attempted to reduce government regulation of the economy and to increase productivity in the public service. Compared to other jurisdictions, Ontario was more strongly committed to the idea of a balanced budget in the late 1970s, but that commitment appears to have waned in the 1980s.

The theme of restraint has been evident in most Quebec budgets since the early 1970s. A principal objective of the 1972 budget, for example, was to ensure "that public expenses as a whole do not increase more rapidly than overall wealth."[17] More specifically, the rate of increase in current expenditures was to be checked so as not to overburden the taxpayers' ability to pay. In order to finance increased capital expenditures without increasing taxes, the policy was to control the growth of operating expenditures. Yet by 1976 the Quebec finance minister stated:

"The challenge facing Quebec's public administration is to restore the rate of growth of expenditures to a level within the rate of growth of the collective wealth."[18] The 1976 budget was designed to level out the increase in spending and reduce the borrowing program, and thus to reduce the deficit. This budget also identified the need to cut back on the introduction of new programs.

To establish better control over expenditure, the 1977 budget said that the government intended "to carry out in stages the reorganization of the public finances, without making dramatic cuts in essential services to the people."[19] Caution was the government's declared guiding principle. The long-term financing of the Quebec public sector was to be limited. Borrowings were to be brought down to about 6 percent of the gross provincial product, the level they were at in the early 1970s.

The 1979 Quebec budget announced three restraint objectives. The first was to control the government's expenditure; all departments and agencies responsible to the Treasury Board were to cut staff by 2.5 percent. The second objective concerned the trimming of the actuarial deficit of government-administered pension funds. The third objective was to cut down the growth rate of salaries in the public sector. In 1980 a major restraint goal was "zero growth" in government personnel. An essential objective of more recent budgets has been to slow the rapid growth of expenditures, especially in health, education and social affairs. The government has adopted the benchmark that public services in Quebec should be provided at costs comparable to what is paid in the other provinces.[20] The following guidelines were established to control overall expenditures for the 1983–84 budget: increases in the cost of established programs should never exceed the increase in the consumer price index; and all expenditures, including the cost of new activities, should be in line with the increase in the gross provincial product. The Quebec government's restraint objective was "to finish bringing the growth of State expenditures to a level compatible with the yield of the economy."[21] Finally, the government stated that "productivity is a top-priority objective to be pursued relentlessly in the coming years." The aim of this productivity improvement program was "to provide the same services at lower cost."[22]

All six governments have set macro austerity targets, along with more specific objectives. The regular budgetary forum has been a crucial occasion for announcing and reaffirming restraint policies. Government restraint demonstrates that public service bureaucracies are often the object of public policy as well as the means through which policy is implemented.[23] Restraint policy has been used as an instrument in dealing with economic conditions, social affairs, fiscal management, and intergovernmental relations.

Of course, restraint goals are not the only ones on the policy agenda. The aims of government restraint have both influenced and been con-

strained by other government goals in energy, fiscal and monetary policy, foreign and military policy, and social policy. Restraint goals have not displaced or succeeded other policy goals; rather, they have been fitted into the agenda, reordering the priority of activities, constraining some objectives but at the same time being delimited by others. Governments have attempted to create jobs and sustain economic activity without adding to their deficits, while also curbing the size and cost of government without abandoning essential social services.

Restraint Budgeting as Reform: Rhetoric Versus Practice

We turn now to an assessment of the extent to which the budgetary outputs of the six governments reflect their numerous professed goals of restraint. Our assessment will focus on fiscal restraint. We shall employ revenue and expenditure data as the indicators of government performance to determine to what degree Canadian governments have achieved or moved toward their restraint objectives. We recognize, of course, that a complete analysis would require consideration of regulatory activity,[24] government and mixed enterprise, and public sector employment data.[25]

Macro Budgetary Trends

Table 9-1 provides data on the expenditure growth rates of the federal government and five provincial governments for selected intervals from 1962 to 1982. Three seven-year intervals are presented to gain a long-term perspective and to compare the recent restraint period (1976–82) to earlier periods. With the announcement in 1975 of several provincial government restraint policies and the federal anti-inflation program, a shift toward restraint became evident in the 1976 budgets.[26]

A common aim of restraint policies across the country has been to slow down the rate of increases in government spending. Table 9-1 shows quite clearly that average annual increases in total government spending (measured in constant dollars) declined in all the governments during the restraint period. Alberta's spending growth rate changed only marginally, while that of Nova Scotia, Quebec and Ottawa dropped by half or more, and B.C. and Ontario witnessed marked drops. Expenditure restraint began earlier and has been more widespread than current popular discussion would indicate.

As part of fiscal restraint, Canadian governments have pledged to keep taxes down, in view of both the taxpayer's incapacity or unwillingness to pay more and the impact major tax increases could have on economic activity and business and consumer confidence. Table 9-2 shows that in the restraint period, the rate of increase in total revenue from own sources for the provinces and in gross general revenue for the

TABLE 9-1 Expenditure Growth Rates of Governments for Selected Intervals, 1962–82

	Average Annual Percent Increase[a]		
	1962–68	1969–75	1976–82
Ottawa	3.5	6.7	2.0
Alberta	8.4	9.0	8.2
British Columbia	5.7	11.4	3.2
Nova Scotia	8.0	7.7	3.8
Ontario	10.1	9.2	0.1
Quebec	13.0	8.4	3.4

Source: Calculated from Tables A-4, A-6, A-7, A-10, A-11, A-14 and A-27 in the separate appendix to this study, available from the School of Public Administration, Carleton University.

a. Averages are calculated on the basis of the annual percentage change of gross general expenditure in constant dollars (1971) for each government in each of the interval periods.

TABLE 9-2 Taxation Growth Rates of Governments for Selected Intervals, 1969–82

	Average Annual Percent Increase[a]	
	1969–75	1976–82
Ottawa	8.3	3.0
Alberta	18.0	8.7
British Columbia	10.6	3.9
Nova Scotia	11.3	1.2
Ontario	9.1	0.1
Quebec	10.4	2.2

Source: See separate Appendix Tables A-30, A-32, A-33, A-36, A-37 and A-40. We cannot include the 1962–68 interval as in Table 9-1 because data on total provincial revenue from own sources are not available for years before 1967.

a. Averages are calculated on the basis of the annual percent change of total revenue from own sources in constant dollars for the provincial governments and the gross general revenue in constant dollars for the federal government.

federal government dropped substantially in all cases. In part, as we saw in Chapter 5, this decline in revenue growth was the result of structural changes to the tax system, such as indexation of the personal income tax. However, some of this restraint cannot be attributed to the designed behaviour of governments in that it is due to the declining economy, which produces reduced revenues.

Comparing Tables 9-1 and 9-2, we see that in the most recent period revenues grew at a faster average annual rate than expenditures in Alberta, B.C. and Ottawa, at a slower rate in Nova Scotia and Quebec, and in tandem in Ontario. More detailed data contained in the separate Appendix to this study show that in some provinces per capita revenues in constant dollars grew almost without a break over the 1960–82 period (e.g., in Alberta, B.C. and Quebec), although slowing down in the 1980s. In other cases, however, the trend has been basically flat since the

TABLE 9-3 Total Government Expenditure in Per Capita Constant Dollars, 1969–82

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ottawa	731	741	774	829	878	938	1,021	1,013	982	999	1,006	1,032	1,067	1,080
Alta.	683	731	810	854	817	879	1,014	1,055	1,108	1,097	1,133	1,417	1,218	1,310
B.C.	567	633	652	683	716	782	906	971	875	904	912	933	969	975
N.S.	590	635	676	704	736	832	830	851	818	881	924	891	913	1,023
Ont.	595	638	737	785	786	831	864	875	845	847	843	837	801	807
Que.	582	617	737	820	849	889	962	988	1,008	1,038	1,087	1,107	1,145	1,159

Source: Calculated from separate Appendix Tables A-4, A-6, A-7, A-10, A-11, A-14 and A-27.

TABLE 9-4 Government Expenditures as a Percent of GPP/GNP

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ottawa	17.0	17.3	17.9	18.8	19.0	18.7	20.3	21.5	21.1	21.4	21.2	21.2	22.5	23.5
Alta.	14.2	15.3	16.7	17.2	15.4	14.0	14.3	15.5	17.8	16.2	15.9	18.5	15.8	17.6
B.C.	11.9	13.4	14.1	14.2	14.0	13.8	16.5	19.0	16.9	17.2	16.9	16.6	17.6	18.4
N.S.	20.3	21.3	22.4	23.1	22.7	24.3	24.9	26.9	26.2	28.0	28.6	27.6	30.4	34.3
Ont.	11.5	12.4	14.3	15.0	14.4	14.4	15.6	16.7	16.3	16.4	16.1	15.7	15.3	15.7
Que.	15.0	16.0	18.9	20.7	20.6	20.2	21.8	23.6	24.1	24.7	25.2	25.3	26.6	27.7

Source: Adapted from separate Appendix Table A-1.
Note: The Appendix is available from the School of Public Administration, Carleton University.

mid-1970s (e.g., Nova Scotia), and in others (e.g., Ontario and Ottawa) the per capita real revenues were less in 1982 than they were in the mid-1970s.

Table 9-3, showing total expenditure in per capita real terms, presents a picture of the size of governments relative to the populations. The table shows that all governments spent more per citizen in the early 1980s than in the late 1960s. A closer examination reveals that during the 1976–82 restraint interval, B.C. and Ottawa saw a levelling out in this indicator and that in Ontario there was an actual decline.

Another major idea in restraint budgeting has been that governments should stabilize their claim on the total economy and perhaps reduce their share in order to provide more resources to the private sector which, in turn, can create new wealth and jobs. Table 9-4 presents total expenditures as a proportion of gross provincial product for the provincial governments and as a proportion of gross national product for the federal government. In all six cases, expenditures grew relative to the economy over the period shown. The late 1960s to the mid-1970s was a growth period for all jurisdictions. In more recent years the trend line continued to increase in Quebec and Nova Scotia, fluctuated up and down in Alberta and B.C., was fairly constant in most other provinces and in Ottawa, but declined in real terms in Ontario.

How have the major policy areas fared in budgets during the restraint period? Table 9-5 provides a simple way of tracing the priorities of governments by noting the levels and shifts in relative funding of four broad categories: general government, economic development, social development, and public debt.[27] General government includes the "peace, order and good government" functions of the state: protection of persons and property, defence spending, foreign affairs and international assistance, and executive and legislative overhead. Economic development encompasses transportation and communications, labour, employment and immigration, regional development, agriculture, industry, trade and tourism, research enterprises, and transfers to own enterprises. Social development expenditures include health, housing, social services and welfare transfers, education, environment, and culture and recreation. Public debt refers to debt-servicing costs.

Table 9-5 shows that during the 1976–82, period general government expenditures became marginally more significant in provincial budgets but less important in federal budgets. This probably reflects the continued priority attached to the maintenance of law and order at the provincial level and the lower priority of corrections and defence spending at the federal level.[28] Economic development spending became a larger part of budgets in three jurisdictions during the restraint period (Ottawa, Alberta and Nova Scotia) and a smaller proportion in the others. It is interesting that the growing concern with economic issues in recent years is not more generally reflected in these data. As was discussed

TABLE 9-5 Average Percentage of Spending by Major Policy Area for Selected Intervals, 1962–82

Government/ Years	Policy Areas: General Government	Economic Development	Social Development	Public Debt
Ottawa				
1962–68	32.4	14.6	40.6[a]	12.2
1969–75	21.9	17.7	51.5[a]	8.7
1976–82	17.0	19.8	53.6[a]	9.6
Alberta				
1962–68	11.6	22.9	65.2	0.3
1969–75	11.4	15.5	67.6	5.5
1976–82	14.9	22.3	58.5	4.3
British Columbia				
1962–68	15.0	26.9	57.9	0.1
1969–75	12.0	19.0	67.1	1.9
1976–82	13.5	18.8	64.9	2.7
Nova Scotia				
1962–68	6.7	26.7	56.7	9.7
1969–75	7.6	21.4	60.1	10.9
1976–82	10.4	22.4	58.6	8.6
Ontario				
1962–68	9.9	21.7	62.6	5.6
1969–75	10.0	13.4	69.9	6.6
1976–82	11.4	11.7	67.9	9.0
Quebec				
1962–68	11.3	21.3	63.8	3.4
1969–75	11.6	15.3	68.3	4.7
1976–82	12.7	12.7	68.3	6.3

Source: Calculated from separate Appendix Tables A-17, A-19, A-20, A-23, A-24 and A-27.
Note: Totals may not equal 100 due to rounding.
The Appendix is available from the School of Public Administration, Carleton University.
a. Includes federal transfers to other levels of government. See Table A-27.

Chapter 8, this may be because a number of governments are attempting to rationalize corporate subsidy programs and to use fiscal stimuli, including tax expenditures, more selectively.

In most jurisdictions social development declined in importance in the restraint years, although it still represented more than half of total spending by all governments. Servicing the cost of the public debt became more significant in most jurisdictions, although in the most recent period it declined in Alberta and Nova Scotia. In large measure, this increase is an involuntary priority, reflecting the reduced growth in revenues and the higher interest rates of the early 1980s. We would advise caution, therefore, in interpreting the rising public debt component as proof that government restraint is a failure or a sham.

To summarize, all the governments have moved toward their restraint

goals, although none have fully achieved them. The data show that all the governments have slowed their spending growth rate; several have slowed their taxing growth rate; and a number have stabilized their claim on the economy, although few have reduced their share; and that shifts in policy priorities have taken place during restraint, with social development declining in relative funding, and general government and debt growing in importance.

Specific Restraint Policies

Against this backdrop of general budgetary trends we can examine more specific restraint policies and efforts undertaken by the six jurisdictions. All governments in Canada have articulated generally similar restraint goals, though some have adopted different strategies for achieving these goals. The main distinguishing features of the restraint programs can be characterized as follows. Alberta, Nova Scotia and Ottawa have limited their public sector compensation increases; Ontario has controlled and gradually reduced its civil service complement and its civil service's share of the provincial economy; B.C. has dramatically and drastically reduced its civil service through attrition, layoffs and job cuts; and Quebec has rolled back public sector compensation levels.

Canadian governments have preferred certain strategies over others for limiting the growth and size of the state. During 1975–78 and 1982–84, when the federal government initiated anti-inflation policies, all the provinces adopted some form of controls on public employees' wages and salaries. Table 9-6 provides an overview of the nature and extent of the various pay restraint policies adopted by the federal and provincial governments as of 1983. The table shows that public sector compensation restraint programs differ in terms of severity, duration and scope of application.

Ottawa's "six and five" restraint program held federal public service wage increases in new agreements to 5.5 percent in 1983. Most provincial governments were tougher employers. Provincial public employees who signed new agreements in 1983 received wage increases averaging 4.2 percent. Private sector workers won increases averaging 5.6 percent in 1983. All of these wage increases fell below the level of inflation, which was 5.8 percent.[29]

Besides limiting public sector compensation, most governments have restricted or reduced the number of public employees in their bureaucracies. The number of total authorized person-years in the federal public service controlled by the Treasury Board has stabilized since the government's restraint policy was introduced in 1975. The impact of this person-year restraint has varied among departments and agencies. Those ministries hardest hit over the restraint period were Veterans' Affairs, Indian Affairs and Northern Development, the Public Service

TABLE 9-6 Federal and Provincial Pay Restraint Policies, 1983

Government	Nature of Control Program	Effect on Collective Bargaining	Who is Covered
Federal Government	6 % in first control year; 5% in second control year.	Existing terms and conditions frozen; agreements extended for two years, strikes prohibited.	500,000 federal and Crown corporation employees, whether unionized or not.
British Columbia	Maximum increases of 10% in first year and 9% in the second. Actual value of increases determined by government-set economic and compensation criteria, such as inflation, unemployment and ability to pay.		40,000 provincial public servants, all hospital, school board and municipal workers.
Alberta	Informal 10% guidelines for unionized public service; 6%, with possible extra 2% merit pay, for government managers.		Provincial government managers. Informal guidelines applied to provincial government employees.
Ontario	Increases held to or rolled back to 5% over one control year.	Depending on expiry date, life of agreements may be extended one or two years. All 1983 negotiated wage increases greater than 5% to strike ban and suspension of arbitration, bargaining on non-monetary items severely restricted.	All provincial government and Crown corporation employees; school board, municipal, hospital workers and teachers. Covers approximately 500,000 workers.

Quebec	Three-year program to form basis of provincial government bargaining stance. All public service salaries to be cut by 18.89% for 3 months commencing January 1, 1983, followed by proposed maximum increases averaging less than 5% per year for 1983, 1984 and 1985.		300,000 workers in the provincial public sector, including teachers, hospital workers, school board workers.
Nova Scotia	Guidelines announced providing maximum 6% in one-year control period.	Existing agreements are honoured, no rollbacks. Full bargaining on monetary and non-monetary items. Agreements expiring after September 1, 1982 be extended one year; bargaining must be settled by February 1983.	School, municipal, hospital, provincial government and Crown corporation employees.

Source: Adapted from *The Facts*, December 1982/January 1983, pp. 14–15.

Commission, and National Defence (civilian). These reductions were the result of transfers of responsibilities to the provinces in the case of veterans' hospitals and Indian bands; they also resulted from declining program requirements in language training, shifting program needs, and workload reductions.[30]

Since 1977/78 there has been a slowdown in the growth of provincial civil services compared with previous years. In fact, the Ontario government has persistently pursued this goal since the mid-1970s. It reduced its overall civil service complement by 2.5 percent (1,741 positions) in 1975/76 and sought to reduce a further 1,000 positions in 1976/77. In 1977, it replaced its controls over complement, which had concentrated on the number of full-time classified staff, to a dollar control of all staffing on ministry payrolls, including unclassified and other Crown employees. This switch from complement control to dollar control is a more effective check over staffing costs; it allows more flexibility for ministries to utilize their staff and provides better information on the mix and total number of staff. The 1977 goal was for no growth in the cost of staff. In 1978 the payroll costs of civil service salary and wage settlements that exceeded 4 percent were to be offset through staff reductions or savings in administration. The policy in 1979 was to hold wage and salary increases to "a fair but non-inflationary level" and thereby to hold down the size of the civil service. A formal wage restraint program was in place over the 1982–84 period. By 1984. Ontario had 9 public servants for every 1,000 residents, compared with 11 for every 1,000 in 1975.[31]

Most other provinces have also cut back on the number of employees, but they have done so more recently and in one case more drastically.[32] The approved positions in British Columbia's civil service declined by 15 percent in 1983/84, and they are projected to drop a further 11 percent in 1984/85. Alberta employee numbers dropped by less than 1 percent in 1983/84, and the 1984/85 budget projected a reduction of 2.5 percent in full-time positions. In Quebec there has been little change since a 2.4 percent reduction in employees in 1981/82. Quebec has cut back salaries and wages but has eliminated relatively few jobs compared to British Columbia. Nova Scotia's civil service employment rose by 2.5 percent in 1982/83, dropped by just under 1 percent in 1983/84, and is expected to remain unchanged in 1984/85.

Another common approach to budgetary restraint has been the restricting, freezing, reducing and terminating of social policy expenditures and services. Alberta, British Columbia and Quebec have cut social service staffing levels. In Ontario, while the universality (scope) of social programs has not been touched, entitlement levels have been reduced and eligibility (access) criteria have been tightened. There has been a spending freeze on day-care and child-welfare services.

Recent B.C. budgets have been perceived by many as an attack on

social policy.[33] In its 1983 budget, though public spending increased by 12 percent and the proportion of spending directed to the social area actually increased slightly in general terms, the Bennett government reduced spending for some social services, dismantled assessment teams that monitored child abuse, abolished rent controls and the Rentalman's Office, cut funding to post-secondary schools, froze welfare payments, cut housing allowances, increased hospital user fees, scrapped consumer-help agencies and many consumer education programs, cut back student aid, reduced funding to immigrant settlement groups, and abolished the Human Rights Commission. In the 1984 B.C. budget, government spending was reduced absolutely by 5 percent, but again the proportion of spending going to the social area was maintained. However, some social programs were cut: spending for several specific social services was reduced; funding for the legal aid pharmacare programs was reduced; funding for job-creation and retraining programs was cut by 15 percent; welfare payments for single people and young childless couples was lowered from $375 to $350 a month; and an 8 percent health care maintenance tax was imposed. The budget's austerity measures also meant a cut in payments to victims of crime and reductions in the province's share of the cost of training firefighters and police.

A number of governments, including Ottawa, Ontario and Quebec, have given some attention to moderating or reducing the borrowing requirements of government corporations. Some governments (Alberta, B.C. and Quebec) have raised taxes and fees in the name of fiscal restraint. Some unique restraint policies can also be noted. Ontario tried unsuccessfully to close some hospitals in the mid-1970s; Ottawa, in 1981, tried unsuccessfully to end a number of tax preferences and to restrict others; and the Quebec government in 1983 unilaterally reopened public sector contracts and rolled back negotiated increases.

In carrying out their restraint policies, governments have used an assortment of fiscal instruments and other policy instruments such as moral suasion and privatization. They have relied most heavily, however, upon several variants of the expenditure instrument. They have restricted transfers to individuals and households, and have restricted wages and salaries of government employees, current purchases of goods and services, and transfers to other governments and agencies. A number of governments have also reduced their lending, especially to Crown corporations. Throughout the recent restraint period, capital investment has been generally exempt from such restrictions. In particular, economic-oriented investment for transportation, general public works, and industrial and technological development has enjoyed continued growth in most jurisdictions. There is no doubt that governments regard capital expenditure as a productive investment and an effective

tool of fiscal policy. Capital spending has been maintained and accelerated in recent years in response to the economic recession and the tentative recovery.

Governments have been much less willing to adopt general increases in corporate or personal income taxes as a means of reducing deficits. Besides the predictable reaction of voters to tax increases (though they like the services), governments are concerned that higher taxes could scare away investment, especially foreign investment, redirecting it to other Canadian provinces or to American states; and that higher taxes could raise prices, reduce incentives, dampen consumer spending, or lead to demands for higher wages and salaries.[34] Equally important, the New York credit-rating agencies have told governments in Canada that raising taxes to finance deficits, especially those generated by operating expenditures, is not fiscally responsible. Such behaviour could (and in fact has in some cases) adversely affect the rating given to a government's direct and guaranteed debt. A rating drop could cost tens of millions each year in borrowing charges.[35] As we noted in Chapter 8, this is a fact of life facing all provincial finance ministers in Canada.

In the early 1980s, most finance ministers have held the line on retail, corporate, and personal income tax levels in order to encourage recovery. The hope, of course, has been that with economic recovery, government revenues will increase. During the restraint period under study here, the perennials of fiscal punitiveness — tobacco, alcohol, and fuel taxes — were not forgotten. Nor were health care premiums. To raise additional revenues, governments increased fees and instituted user charges. Ottawa reviewed and attempted to eliminate or reduce a large number of tax expenditures in its 1981 budget, but it was forced to retreat and abandon most of this policy.

The final political dimension of restraint budgeting that we examine concerns the structures and procedures used to formulate and implement restraint policies. It seems that government restraint priorities do not always fit well with internal resource allocation processes. The machinery and procedures of public administration have been changed in all jurisdictions to get a better match between restraint objectives and resource decisions. Various extraordinary budgetary methods have been tried, including special exercises and mini-budgets, separate revenue funds, and new organizations and systems.

At the federal level, there have been several occasions when special priority-setting devices were used in the name of restraint. The wage and price controls priority of 1975 and the creation of the Anti-Inflation Board (AIB), the $2-billion expenditure cut exercise ordered by Prime Minister Trudeau in August 1978, and the June 1982 "six and five" budget, which included a policy of statutory control of public service wages, all emerged from special machinery which disobeyed the normal priority-setting rules.[36]

The Alberta Heritage Savings Trust Fund, established in 1976, has been described by Premier Lougheed as "a rainy day account" for future generations. The fund is a prudent way of holding a portion of provincial resource revenue. It symbolizes the province as trustee. In 1982, the B.C. government established the Resource Revenue Stabilization Fund. The purpose of this fund is to buffer the provincial operating budget from the effects of resource revenue instability. The fund is intended to operate in the following manner:

> All resource revenue flows into this fund so that a balance may be accumulated in years of strong revenue to offset the effect of subsequent declines in resource revenue. Through the moderation of year-to-year fluctuations in resource revenue available for appropriation, it will be possible to reduce greatly the need to make year-by-year major adjustments to government revenue and expenditure policies.[37]

While Alberta's Heritage Fund provides for the long-term accumulation of resource revenue, British Columbia's Stabilization Fund is meant to stabilize medium-term fluctuations and thus make provincial budget management less difficult.

The Nova Scotia government introduced a special program of public expenditure containment in late 1975. In 1979 it instituted certain organizational and process reforms to support the exercise of fiscal responsibility. These included the Management Board of Cabinet, a new planning and budgeting process, and a new information system for program evaluation. These were described in Chapter 6.

Ontario, too, has resorted to some exceptional budgeting methods to control spending. In 1975 and again in 1982/83, special program reviews were conducted to identify ways and means of restraining government costs. Internal cost reductions and program cuts provided the resources to finance the additional fiscal measures that were announced in mini-budgets in July 1975 and November 1983. Shortly after the federal anti-inflation program was announced, the Ontario treasurer unveiled a new expenditure growth target for the next fiscal year.

In the late 1970s and early 1980s, Ontario undertook several initiatives to strengthen fiscal management and control systems. These included broadened powers for the provincial auditor; the total wage bill; a formal requirement for assessing the economic and fiscal impact of all new legislation; quarterly financial reports to the treasurer by 12 of the largest Crown corporations; zero-base budgeting in certain ministries; and sunset provisions in the statutes of particular boards.

The 1982 Ontario budget established a program of public sector wage restraint, and later that year the Inflation Restraint Act was introduced which created the Inflation Restraint Board. The board has three main functions: administering an estimated 15,000 compensation plans covering approximately 683,000 persons in the provincial public sector of

Ontario; providing advice, on request, respecting proposed changes in the approximately 3,000 prices and fees that are either set or regulated by the province; and monitoring private sector prices and compensation changes within Ontario and promoting public understanding of the inflationary process.[38]

In Quebec, the Treasury Board was given its own minister in 1981, separating it for the first time from the minister of finance. The new president of the Treasury Board was put in charge of the overriding financial problem facing the Quebec government — wages. Public sector wages consume about half the provincial budget. The new Treasury Board president began a public campaign to garner support for further *compressions budgetaires*. The finance minister brought in a mini-budget with tax increases. In 1982 the government unilaterally reopened collective agreements in the public sector and reduced increases. In 1983 the Civil Service Department was abolished and most of its functions were transferred to the Treasury Board.[39]

Our analysis of specific restraint policies yields the following observations:

- Most governments have opted for restricting public sector wages and reducing the growth rate of their public sectors in both expenditure and employment.
- Few governments have laid off or fired large numbers of people, preferring to rely on attrition instead.
- Governments have restrained social spending, operating expenditures and borrowing by public enterprises. They have not, however, restricted capital spending in a similar fashion.
- Most governments have been reluctant to introduce major tax increases to reduce their deficits. They have concentrated on expenditure restraint.
- All governments have established new and special agencies and procedures to manage restraint. Thus, restraint budgeting has produced its own kind of budget reform.

Budgeting as a Means of Intergovernmental Coordination

Debate over restraint has been central to federal-provincial and provincial-municipal discussions of fiscal matters over the last several years. Topics of restraint in fiscal federalism entail revenue and expenditure issues and policy and power relationships between the various orders of government. Examples of restraint as a major intergovernmental fact of life include the 1975–78 anti-inflation program, the 1978 and 1981 federal cuts in transfers to provinces, the "six and five" policy, the new Canada Health Act, plus numerous cases involving provincial-municipal rela-

tions. In some of these examples, the governments' restraint efforts have been coordinated by means of cooperation; in others by reaction and adaptation; in still others by imposition; and perhaps in others by anticipation. To illustrate the extent and nature of coordination restraint measures in a federal political system, we shall briefly examine the 1975–78 federal anti-inflation program, the 1982–85 federal "six and five" policy, and the 1982 Established Programs Financing negotiations.

The Anti-Inflation Program: A Case of Cooperative Executive Federalism

On October 13, 1975, the prime minister announced a program to reduce the rate of inflation in Canada. The main features of the program were the introduction of national price and income controls in the private sector, agreements with the provinces on public sector controls, and restraint in federal expenditures. The expenditure restraint involved cuts of about $1.5 billion and included the termination of Information Canada, Opportunities for Youth, and the Company of Young Canadians.

Before the federal program was announced, a few provincial governments had announced budget restraint measures. The April 1975 Ontario budget had introduced a fiscal restraint policy, and in June of that year a special program review had begun to identify opportunities for internal cost-cutting. In September 1975 the Alberta government had announced a budgetary restraint guideline of 10 percent for the upcoming fiscal year.

After the federal program was announced on October 13, the provinces responded quite rapidly. On October 16, the Quebec premier announced that a provincial board would be established to control prices and incomes in Quebec. On October 24, the B.C. government imposed a price freeze on food and essential commodities and services. Rent control was introduced five days later, and an 8 percent limit on wage increases began on January 1, 1976. Similarly, Nova Scotia established a rent review commission and an 8 percent limit on rent increases for 1976.

On October 30, 1975, the Ontario treasurer presented a detailed outline of the government's policies in support of the federal initiatives, including a 10 percent expenditure growth limit for the 1976/77 fiscal period and a one-year freeze on salaries of top civil servants. An 8 percent ceiling on rent increases for one year was announced in November, retroactive to the previous July. In December, the Ontario government ordered all hospitals to freeze salaries and the number of staff for 1976. In January 1976, Ontario signed an agreement with Ottawa placing the public sector under the federal program. The provincial public sector groups covered included direct employees of the provincial government and all municipal governments, as well as those employed in Crown corporations; provincial agencies, boards and commissions; school

boards; colleges and universities; and hospital boards. Inclusion of these groups guaranteed that a major provincial employment sector was under the federal system of controls.

A 1976 Ontario budget paper described the concurrent effort of federal and provincial initiatives in restraining expenditures:

> In bringing the Ontario public sector into the national anti-inflation program, the Government of Ontario chose to rely on the federal AIB to implement the guidelines. It did so to prevent duplication in bureaucracy and to ensure consistency in implementation. By using the newly created national board there has been some inevitable delay in the processing of wage and salary agreements. Nevertheless, the national guidelines are already having an impact in Ontario. For example, settlements and arbitration awards to school board employees have been reduced by the AIB. In direct negotiation with the Ontario government, the Ontario Medical Association has settled for an average 8.1 percent increase in its fee structure. Management employees in the Ontario Public Service have been limited to increases that range from 0 to 8.5 percent. Clearly these developments augur well for achieving the national goals in Ontario and for restraining government expenditures.[40]

Despite concerns about the effects of excessive government interference in the economy and the length of the federal program, Alberta entered into an agreement with the Canadian government in February 1976, providing for the application of the federal program to the province's public sector until March 31, 1977. The scope of application included all government departments and agencies, Crown corporations, school boards, municipal governments, universities, hospitals and nursing homes. Under the agreement, all collective agreements and other compensation arrangements in the provincial public sector were subject to the review and monitoring procedures of the federal Anti-Inflation Board. In his 1976 budget address, the Alberta treasurer stated:

> The agreement represents a high degree of cooperation between our government and the federal government. The provisions of the agreement, together with the Temporary Rent Regulation Measures Act now in operation as well as the expenditure restraint reflected by this budget, represent a very substantial and responsible contribution to the overall effort to control inflation.[41]

The application of federal anti-inflation guidelines to the provincial and municipal public sectors across Canada, in most cases by formal agreements between the two senior levels of government, represents, we think, an example of intergovernmental cooperation in restraint action. This coordination was achieved through federal leadership (partly in response to provincial calls for action) and through bilateral consultation and negotiation in executive and bureaucratic forums. Although largely formal, the coordination processes were relatively fast.

The "Six and Five" Policy: A Case of Critical Adaptation

The main theme of the June 1982 federal budget was how to get the economy growing again by bringing down inflation and increasing productivity. The major restraint priorities included the limitation of federal public service wages to 6 percent in 1983 and 5 percent in 1984, and the temporary elimination of collective bargaining; the limitation of federal-administered prices to the 6 and 5 percent objectives; and the limitation of indexation of taxes and selected social benefits to 6 percent and 5 percent, rather than setting them at the full inflation rate. These measures constituted much of the plan for the "Six Percent Society." The focus was clearly on an anti-inflation attack anchored to a policy of statutory control of public service wages.

As in the previous case, before the "six and five" program was announced in the June 1982 federal budget, a few provincial governments had already instituted public service wage controls. In February 1982, the B.C. government announced that it would establish wage and salary guidelines for all persons working in the provincial public sector. The upper limit was set at 10 percent. By May, Premier Bennett had lowered this limit. Quebec announced a restraint plan in May 1982 to reduce the wages of public sector employees (approximately 300,000 workers) by almost 19 percent for the first three months of 1983.

The federal government felt it was of critical importance that the provinces agree to set up broadly similar programs if the latest federal anti-inflation policy was to succeed and more drastic steps were to be avoided. Ottawa asked the provinces to keep public service wage increases to 6 and 5 percent over the next two years, to impose similar controls on provincially regulated prices, and to use the awarding of government contracts and subsidies as a means of persuading the private sector to follow the program.

On the eve of the annual First Ministers' Conference in August 1982, the federal finance minister visited the chairman of the conference to urge the provinces to adopt the two-year public sector wage and price controls program. At the conference, most premiers criticized the federal restraint policy as being one-dimensional and insufficient to bring about economic recovery. The provinces were unanimous in their commitment to "exercise restraint on public sector wages, prices and expenditures within their respective jurisdictions."[42] On the federal call to join a national campaign of wage and price restraint, nine premiers believed that individual restraint programs designed by each province were more likely to succeed than one cross-country, federally-initiated plan. Only Ontario Premier William Davis preferred a national program.[43] In other words, while there was consensus on the need for restraint measures for dealing with fiscal stress, there was little agreement between the federal and provincial governments that a single, national policy was desirable.

In Table 9-6 we presented some comparative data on federal and provincial public-sector pay restraint policies. Although the provinces did not enter into formal agreements with Ottawa regarding the "six and five" policy, provincial programs have shared many qualities of the federal policy. The duration of the provincial programs has been extended through 1983 and into 1984, thus matching or exceeding the federal program. All the provincial programs have used guidelines which are not far off the averages set by Ottawa. All the programs except the one in Alberta have been mandatory and have broadly covered most or all provincial public sector employees.

This case illustrates an instance of less refined intergovernmental coordination in budgetary restraint. Yet a form of cooperation was obtained nonetheless. As Premier Lévesque commented in 1982, "The direction is the same generally, because we all know we have to retrench in many ways as far as public sector expenses are concerned, but we'll do it our own way."[44] Through a process of some provincial initiatives, followed by the federal proposal and by subsequent provincial reaction, criticism and adaptation, the control of public sector wages was brought into a general pattern. The de facto introduction of a "six and five" policy variant at both levels of government represents an example of partisan mutual adjustment or critical adaptation in budgeting. Both this case and the previous one demonstrate the possibilities of intergovernmental coordination on restraint, albeit through the different procedures of bilateral cooperative negotiations versus unilateral critical adaptation.

Both of the above cases illustrate that a significant element of restraint budgeting has been the interaction between the federal government and provincial governments. Thus, even though tension and conflict are intrinsic general features of the intergovernmental arena in Canada, the federal-provincial process has been a forum for encouraging the development of common restraint policies.

The EPF Reductions: A Case of Hierarchical Coordination

In his budget of October 28, 1980, the federal finance minister set out a plan to reduce Ottawa's deficit over the next several years. Among the many measures proposed for deficit reduction, perhaps the most controversial was the announcement that "significant savings" ($1.5 billion over the 1982–87 period) would be sought from "reductions in federal transfers to provinces relating to areas coming under provincial jurisdiction". At that time, the federal and provincial governments were renegotiating the terms of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, as well as the Canada Assistance Plan.

The stated federal rationale for this transfer restraint policy was threefold. First, in order to control the deficit it was necessary to reduce

expenditure commitments, and since intergovernmental transfers compromised a sizable component of the federal budget, they could not be exempted from spending controls. Second, substantial savings in transfers were necessary in order to gain fiscal flexibility and reallocate expenditures to new priorities. Third, such action would help to clarify the federal-provincial division of responsibilities in certain policy fields. This final reason was related to two major issues. One was about whether provinces were spending EPF cash payments in the program areas of health insurance, medicare, and post-secondary education, or whether they were "diverting" part of these payments to other program areas. The other issue concerned the maintenance of national standards in health care (e.g., portability, the public administration of service, universality) versus provincial autonomy in program financing and administration, which entailed user fees, extra billing, and the private management of facilities in some provinces.

On February 5, 1981, the federal finance minister announced that a parliamentary task force would be created to examine the fiscal arrangements within the context of the government's expenditure plan as set out in the October budget. The task force was to report by the end of June 1981. This task force provided for the first time in Canada a legislative forum for examining these arrangements prior to executive negotiations. As well, it offered interest groups an opportunity to provide input into federal-provincial bargaining on fiscal matters.[45]

Not surprisingly, the provinces and many interest groups reacted strongly and negatively against Ottawa's announcement of transfer cuts. We shall briefly enumerate the Ontario government's response in order to illustrate the provincial perspective on this issue. In his 1981 budget, the Ontario treasurer stated: "I obviously support Ottawa's belated effort bring its budget under control. However, I hasten to add that for a number of valid reasons we believe large-scale retrenchment in fiscal transfers to the provinces is both unjustified and unwise".[46] This line of argument was also expressed by other provincial governments. The reasons Ontario advanced against transfer reductions were as follows:

- Transfers to the provinces have not been a significant cause of the federal government's fiscal difficulties.
- The expected improvement in federal oil and gas revenues means that Ottawa has the capacity to avoid "precipitous cuts" in transfers.
- The bulk of any transfer reductions would be borne by the provinces with the least fiscal capacity, given that federal transfers are concentrated in eastern and central Canada by virtue of population and tax bases.
- The EPF arrangement is not "over-delivering," nor is it more generous than originally anticipated. Ottawa has not paid more than its fair share.

- The federal action will make it harder to maintain national standards and will inevitably make it more difficult to ensure balanced economic growth across the country.[47]

In his 1982 budget statement, the Ontario treasurer warned: "The federal cutback will coincide with lower growth in the Province's overall revenue structure. So, if we are to protect our level of essential services and still maintain a stance of fiscal responsibility, we have no choice but to raise additional tax revenues".[48] To recover the lost revenue from federal cutbacks, the Ontario treasurer broadened the retail sales tax base by eliminating exemptions for several items.

In contrast to the two other cases discussed above, the EPF case provoked considerable conflict between the federal government and the provincial governments. It was very much an adversarial relationship and the tension was highly visible. In fact, the provinces' cool response to the "six and five" policy was coloured in large part by federal intentions regarding EPF. This demonstrates how one initiative can affect another in the intergovernmental arena. Finally, the form of interaction and coordination in this case may be described as central imposition or hierarchical coordination.[49]

Conclusions

Restraint budgeting is replete with meanings and normative modes of expression. In this sense it is much the same as "expansionary" budgeting. There can be no doubt that restraint has been practised since 1976, at least when one looks at the overall rates of real expenditure and revenue growth. As a part of budgetary goal setting it has been present for much longer than most people seem to think. Actual experience also shows degrees of practice which do not correspond to the rhetorical noise inherent in the broad-brush assignment of "heroes and villains" in the restraint exercise. Thus, Ontario has restrained more than British Columbia, and Quebec more than Nova Scotia. On average, the federal government cut back spending in the 1976–82 period more than the provinces, precisely at the time when the provinces, by some accounts, were perceived to be "well managed" and Ottawa was perceived to be in disarray.

Much of the data used ends in 1982 and thus does not contain the effects of the recession. Federal spending obviously went up, due to automatic stabilizers. If it had not done so, provincial budgets, or at least demands on these budgets for welfare, would have swelled. The "feds," therefore, have huge deficits and look unrestrained. If the automatic stabilizers had not been in place, the provinces would be debt-ridden and the federal government would look somewhat more fiscally prudent. The dimensions of federal-provincial coordination have taken on their usual

diverse patterns. Since 1976 all governments have moved in the same overall direction, "coordinated" by the need to respond to similar pressures. However, they have marched at different speeds, with different tactical skills and concerns, and with varying degrees of willing cooperativeness, begrudging grumpiness, and outright conflict.

The budgetary kaleidoscope can thus be turned in different ways. In this chapter we have turned it in only a handful of ways, and in relation to only one concept — "restraint" — as viewed over less than a decade. Moreover, we have not looked at the actual outcomes or at the effects on different income groups and interests. Nevertheless, we have seen enough to be able to proceed to some overall conclusions about the entire historical period covered in the study.

Chapter 10

Conclusions

As we stressed at the outset, the overriding purpose of this study has been to present an integrated historical account of the evolution of federal and provincial budgeting since about 1960. This required, in our view, the need to strike some analytical balance between the federal and provincial levels, between taxing and spending, and between budgetary outputs and processes. These sets of balances were all the more necessary if we were to deal with the dual frame of reference for the study — namely, this Commission's concern for examining basic goal-setting processes, and a desire to use the study to address some basic gaps in the published literature on budgeting. The major gap was the absence of material on comparative provincial budgeting, but we also drew attention to the fact that there was a considerable tendency to treat spending and taxing as separate worlds.

While this overall purpose is ambitious enough and while it has, we hope, been of some utility in allowing us to see how fiscal systems have evolved, we have added several important caveats. The first is that we do not deal systematically with actual budgetary outcomes and effects. However, we have examined some of the general debates about overall outcomes or claimed outcomes, since these are essential to understanding the nature of the debates about reform. The second is that we have not related spending to other basic instruments and processes of governing, such as regulation and public enterprise.

Our concluding comments are directed to the three issues set out in the Introduction — budgeting as a goal-setting occasion, federal-provincial budgetary coordination, and budgetary reform. We also relate these to the concerns about restraint, including the debate about deficits and control. The nature of budget reform and its limits depends on an

analysis of the first two issues, but we then discuss it in relation to several further essential segments, including tax versus expenditure scrutiny, executive versus legislative scrutiny, and budget secrecy in the context of the scrutiny of public interests versus private interests which make claims on the modern public purse.

Budgeting and Goal Setting

The analysis suggests several reasonably clear developments about the role of budgeting in goal setting, but the reform implications are not equally clear. First, at both levels of government the budgetary goals expressed by elected politicians have broadened greatly. In one sense, this should hardly be surprising. While it has always been the case that the presentation of budgets constitutes one of the two main non-election occasions in which politicians can communicate priorities and indicate that they share all or most of the values of the electorate, governments have grown significantly since the 1950s. So, too, have the number and specificity of the interests in the political system that make varying open and hidden claims on the two halves of the public purse. Indeed, the proliferation of special interests has proceeded to a scale which some analysts characterize as the triumph of rent seeking and/or rights-oriented politics, in which income-shuffling is rampant and economic growth is the forgotten victim. Budgets partly reflect this. Second, in recent years, especially at the federal level, the breadth of goals in combination with the increased frequency of budgets (plus the separation of federal spending and revenue budgets into two separate events) has produced what we characterize as a significant decline in the goal-setting function and a rise in the more evident use of federal budgets as tactical occasions. Third, underlying these developments (both as cause and effect) is the continuing presence of several layers of accumulated budgetary reform norms and paradigms. These include balanced budgeting, Keynesianism and monetarism, in one dimension, and various versions of managerial rationality and control in another. These are closely linked to larger political ideologies and ideas, but they are reinforced by the professional knowledge groups that populate a budgetary process that is both increasingly professionalized and layered with bureaucratic players. To a certain extent, therefore, the process lives a life of its own.

The implications of these trends, while separately identifiable, are not wholly clear. Underlying the notion of a decline in the goal-setting function of budgets is a view that earlier budgets (in the 1950s and 1960s) served this function better. Does this mean that "better" is equated with having fewer goals, such as those that resided at the core of orthodox Keynesian macroeconomic policy? Could it not equally be argued that goal setting has actually improved, precisely because budgets now

reflect a wider range of goals which have been endorsed, more or less, by successive electoral verdicts delivered in 11 partly separate and partly interwoven political systems? Put another way, budgets are no longer economic policy occasions; they are social and economic policy occasions. Or, if one extends the analysis, one could easily conclude that what we have is approximately what we collectively wanted. By this analogy, one could easily sweep in the "inevitability" of the recent resort to more frequent budgets, using the argument that since the economic and political worlds are more turbulent and volatile, more frequent "adjustments" are necessary; and we therefore have more budgets.

The above points suggest not only that some analytical dilemmas are unavoidable but also that we must not view them all as inevitable. We therefore differentiate our basic conclusions about goal setting. We do not regard the simple expansion of goals as evidence of decline. Nor do we lament the partial passing of the Keynesian notion of macroeconomic policy at the federal level and its melding into the microeconomic realities that structural issues force on the modern budgetary agenda. More goals probably means less clarity, since more trade-offs are implied, but this is not democratically undesirable. The (partial) joining of macro- and microeconomic concerns is to be welcomed. What it may suggest is that one must think more carefully about how to restructure budgetary forums so as to enable debate and scrutiny to deal with modern complexity. We turn to this task below. We do think, however, that resorting to increased budget frequency and the excessive use of budgets as tactical occasions is harmful, since it further reduces even the minimum sense of direction that may now be possible from budgets. If the combined forces of the television-centred media era, opposition tactics, and governmental urges to be "seen to be doing something" produce increasing amounts of tactical budgeting, then reforms should be implemented that reduce or rein in these appetites. Again, we address these possible ways below after reviewing the rest of the reform dimensions to which they are inevitably related.

Federal-Provincial Budgetary Coordination

We have examined the issue of federal-provincial budgetary coordination in three ways. First of all, in Chapter 3, we focussed on the issue in a direct way, setting out the several dimensions of coordination and drawing on existing published analyses. The second way was to examine the separate realms of budgeting at the two levels of government. The third was to look at restraint budgeting, especially in relation to federal-provincial coordination in the case-study provinces. These three approaches were necessary to obtain some sense of the evolving patterns of interdependence and independence.

We can draw three broad conclusions about the elusive coordination

issue. First, in an overall sense, there has been evidence of a significant amount of reasonable coordination. This is shown not only in the area of equalization and the consequent sharing of the basic fiscal capacity, and in tax agreements, but also in the basic aggregate pattern of expenditure outputs. The symmetry of the latter is, of course, largely the result of the major conditional grant programs and other federal-provincial programs crafted primarily in the 1960s and early 1970s. In hindsight, many of these programs now line up under the "well-coordinated" list, but this belies how the coordination was achieved and how stable the pattern is. As Chapter 3 pointed out, the major intergovernmental programs were all objects of extremely intense dispute about whether they were needed, their timing, and the values that ought to attend them. Moreover, they were almost never purely objects of intergovernmental dispute, since they were enveloped in deep-seated public-private disputes as well.

Within this larger panoply of similar budgetary patterns there also exists a considerable realm of uncoordinated behaviour. Given that democratic federalism is intended to allow such freedom, the evidence that it occurs should not, in principle, be an occasion for criticism. As always, the key here is how much is good or bad and through which prism of values "excesses" of freedom can be identified. Our overall view is that most of this budgetary activity is not harmful, either in the sense of harming the "economic union" or harming the political union. Indeed, it often strengthens the latter. We observed in Chapters 7 and 8 that some of the provinces have practised a moderate amount of countercyclical fiscal policy. The nature of the practice is both varied and limited by several realities.

First, only some of it could be characterized as purely provincial fiscal policy; some can be seen as attempts to counter the adverse effects of federal policy since federal fiscal policy (and even more so monetary policy) is not especially sensitive in its regional impacts. Second, provincial governments have to respond to particular pressures and demands in their regional economic setting. Third, the presence of leakage of fiscal effects, as well as the inherent revenue limits, means that most provinces neither want to nor can play the role of mini-Keynesian policy makers for very long or in sustained ways.

The second realm of budgetary freedom is that found in our closer look at expenditure data in Chapter 7. It shows the existence of selected instances of highly varied budgetary decisions that are unique to the political views of provincial governments or to the regional economic circumstances of the province. From our perspective, these are not a cause for concern, given the basic underlying tenets of federalism. We must stress in this regard that we are reaching these views only in the context of a general look at budgeting and in relation to federal-provincial relations over almost three decades. We could well decry particular

instances of provincial freedom, such as might arise, for example, out of evidence that a province has severely cut its per capita spending on education or some other policy activity, but these would reflect particular values held about this area. Similarly, we could be concerned about provincial regulatory policies that prevent the free flow of capital and labour.

In general, then, we do not find federal-provincial budgetary coordination, or the lack thereof, to be a large problem. We share some of the concern about the excessive verbiage and cantankerousness of federal-provincial conflict in the budgetary field, but we stress that the major instances of conflict all involve significant and genuine differences among interests as a whole. Hence, they cannot be papered over by nostalgic calls for a return to an era of cooperative federalism, as in the 1960s. Although this era was set in the pleasant enjoyment of a growing economy, cooperation between federal and provincial governments may look greater in memory than it actually was at the time.

The Meaning of Budgetary Reform

The above conclusions reached in addressing the first two issues take us only partway toward appreciating the full dimensions of budgetary reform. The previous chapters have certainly indicated that there has been no dearth of reform practices and proposals to manage and control budgets, from the partial demise of Keynesianism to the emergence of monetarism, and from the Carter Commission to "value for money" auditing. New forms of budgetary documentation are now in the public domain, and independent forecasting and policy advisory bodies exist where none were present in 1960. The latter bring the mixed blessings of better public criticism and an earnest gaggle of budgetary professionals who are eager to reform even where reform is not needed and where silence would be wise.

Lost in the micro-reformism of some of these developments are the imbalances in macro-budgetary reform to which this study has drawn particular attention. We draw concluding attention to them, not in the sense that each leads inexorably to an obvious single reform "recommendation," but rather to show that as a package of imbalances they deserve a central place in the macro-budgetary reform agenda. We shall discuss these imbalances in three pairings: taxation versus spending; public interests versus private interests; and executive versus legislative arenas of scrutiny and power.

Tax Versus Expenditure Scrutiny

We conclude that there are, in general, more strongly sustained elected forums for scrutinizing the expenditure system than for scrutinizing the

tax system. Both have a form of front-line scrutiny in a classic parliamentary sense and in the sense that particular interests watch over their stakes in particular segments of the two halves of the fiscal pie. Beyond this, however, the second line of scrutiny, namely the principal area of sustained scrutiny, diverges. At the federal level, there is no equivalent agent of scrutiny analogous to that which the auditor general supplies on the spending side. This does not mean we are arguing that taxation is not criticized at all. It is the institutional balance that concerns us over the long haul. This also does not mean that we are wholly supportive of the kind of scrutiny offered by the auditor general. Our concern on both these points, however, first requires that we address the second imbalance, namely that involving the scrutiny of public interests compared with the scrutiny of private interests.

An elected parliament (or legislature) is the most legitimate political institution that Canadians have, since they have some voice in choosing it. The structure of private interests, while making a different democratic claim on society, has a less easily defined legitimacy which has always been in tension with parliamentary democracy. This has perhaps been even more the case in the 1980s, given the plethora of interests and the large number of claims made by established interests and interest groups, as well as by other interests that are the product of a more "rights-oriented" society. Parliament exists to hold a political executive to account, but the concurrent political reality is that these same private interests are key beneficiaries of different bundles of the tax and expenditure pie. Key interests, moreover, persistently and increasingly present overall views about fiscal and monetary policy, partly in private and partly in a form of ritualistic pre-budget-speech consultation. In the presentation of their overall views, they often present views in such a way as to convey what they would do if they were the government, but without actually having to govern or having to relate their own claims to other claims. Their democratic right to express these views is a perfectly appropriate one. The imbalance occurs in that their overall views are not examined in a sustained way, as are the government's views and positions or even those of key opposition political parties. In part, this is because the government in a parliamentary system is indeed to be held responsible, while private interests are not. In an era of big government and big private organizations this is a distinction that, while still important, needs some significant amendment.

It is in this connection that the imbalance in scrutinizing taxes versus expenditure raises important concerns. There is a tendency for many private interests to view tax measures as acts of non-intervention. Their views on the tax system are, of course, never wholly consistent because they concurrently express complaints about its complexity and about high rates and the like. Some reform pressures have occurred in the realm of tax accountability, which prompted the federal government and provincial governments in B.C. and Saskatchewan to publish tax expen-

diture accounts, but the practice was dropped in B.C. and Ottawa after two years. We stressed in Chapters 5 and 9 how, in the last half of the 1970s, the primary "cause" of the deficit was a revenue shortfall rather than runaway expenditures. The larger public debate during this period did not reflect this reality. In presenting these examples, we are not suggesting that the evidence adds up to political skulduggery and to the need for immediate reform. The clash of interests in a political system that contains both parliamentary government and federalism is, of course, very complex. A critique of the early 1970s would show that expenditure growth, due to the influx of easy revenue, was the deserved focus of attention. What is involved here is the need to bring both the first-line and the second-line forums of scrutiny of taxation and spending into greater balance so that there is a higher probability of public debate matching more accurately, and with less lag time, with the underlying changes and their component parts.

While we view the expenditure side of this equation as being in somewhat better shape than the taxation side, we expressed critical views in Chapter 4 about some of the distortions in accountability that are inherent in the auditor general's adoption of "value for money" and comprehensive auditing. No one can doubt the importance of the auditor general's overall role and presence in the total network of institutions, but the new role partially distorts accountability in two senses. First, the unelected auditor general has commanded a vast increase in resources to scrutinize spending. Since he is not permitted to scrutinize policy, he has invented an obscure language to discuss "systems." Second, elected members of Parliament, whose job it is to scrutinize real policy, lack resources to do so thoroughly, despite some increase in basic research support. Despite the auditor general's inherent popularity with the media as a folk hero, we believe it is a distortion to equate the Auditor General's Office with Parliament itself, as is so often implicitly done. We would far rather have a shift in institutional roles which would see the unelected auditor general focussing on traditional auditing (that is, on honesty and probity in government finances) and elected politicians focussing on real policy and program scrutiny. The latter would require a focus on "values" for money, rather than only on "value" for money (although efficiency remains an important criterion), and hence it would bring scrutiny into line with the array of political goals that, in fact, underlie both spending and taxation decisions. In this regard, the fact that only four of the ten provinces have embraced comprehensive auditing, either fully or partially, is, in our view, an example of a wise decision not to reform.

Executive Versus Legislative Scrutiny and Accountability

If these tax-versus-spending and public-versus-private balances are addressed, what other issues arise in the realm of executive versus

legislative budgetary reform? Several points arise from our analysis, not all of which point in the same reform direction. First, there have been improvements in the supply of information. Second, reform at the provincial level has been somewhat more executive centred. Accountability to provincial legislatures may have "declined" or may be "superior" to that at the federal level, depending on the value attached to different modes of leverage and debate. Many provinces still retain the role of the Committee of the Whole without a deadline for the passage of the estimates. This gives greater leverage in the ancient politics of "withholding supply." This is probably more than balanced, however, by the realities of premier-centred budgetary power and by weaknesses in the relationship between provincial auditors and legislature public accounts committees, as identified in Chapters 7, 8 and 9.

An overall issue that must be taken into account is that which arises by posing the following question: If federal parliamentary budget scrutiny is significantly enhanced vis-à-vis the federal executive while provincial legislatures remain premier-centred, does this harm the capacity of the federal government to act and govern responsibly and, when necessary, decisively? Our general view is that it could do so. Consequently, much of the thrust of our case should be directed to reform at the provincial level as well as the federal level. Since space does not allow us to present proposals for each province, we leave this issue in abeyance, except to say that it warrants a place in the overall criteria of assessment.

A further issue that affects the legislative-executive balance is the role of the mass media, especially television. In Chapter 2 we noted some of the excesses arising from the tendency to make policies "for show" (including the pressure for "another budget"), and we attributed this to the intense connection between the government, the tactics of short-term opposition warfare in Parliament, and the media's penchant for short-term everything. Advances have been made in televising parliamentary sessions and the activities of some provincial legislatures, yet the bearpit politics of question period gets the lion's share of attention. The House of Commons is televised at other times apart from question period, but these telecasts typically portray a few stray members of Parliament listening to one another speak. A strong case can be made that both these portraits distort politics. By this, we do not mean that partisanship and verbal machine-gun scrutiny are not essential. Rather, we see the need for additional uses of television in Parliament to bring the "other faces" of political reality into more sustained view, preferably without quite as much use of reporters as the proverbial "three-minute interpreters." In short, since television is the dominant mode of mass media, we see a need for linking the broad goal-setting occasions that budgets should be to the development of new televised forums in the national Parliament focussed on key committees. One reason is the issue of public versus private scrutiny.

Budget Reform, Budget Secrecy and the Scrutiny of Private Interests

Before proceeding to link this with our overall view of budgetary reform, we need to deal with the issue of pre-budget-speech secrecy. To the extent that this issue is equated with budget reform, the purpose of the above concluding analysis is, in a major sense, to show how narrow a part of the reform agenda it in fact is. Our views about it are very clear. If governments cling to the practice of budget secrecy, this can be attributed not to any convincing philosophical rationale but rather to the residual drama which secrecy gives to the budget speech as a political or tactical occasion. Given the increased frequency of federal budgets in recent years, even this tactical advantage may be of dubious or at least unpredictable advantage.

The three reasons cited in Chapter 5 provide our rationale for why the practice of budget secrecy should cease. Since ministers do not resign when breaches of secrecy occur, the practice only brings disrepute to a basic convention of cabinet-parliamentary government. Since the secrecy helps prevent full internal discussion within cabinet, it reduces collective cabinet responsibility for what is arguably the most important set of decisions a government takes. Moreover, it increases the probability of major errors, such as those that occurred in the 1981 budget, and since other types of decision are not accompanied by such extremes of secrecy, despite the equal possibility of private gain, its retention is out of step with progressive practices that have evolved over the years. We are not arguing for an end to all secrecy; cabinet secrecy must exist to encourage frank debate within the cabinet. Moreover, any major government decision should be announced in an orderly way, rather than being dribbled out in bits and pieces.

A reasonable case can be made for federal-provincial agreement on the timing of budgets (e.g., within the same month each spring or fall, at which time both the revenue and the expenditure budgets would be presented in all eleven jurisdictions). Since the provincial budgets are presented in the spring, this basically means federal action. Whether in the fall or spring, and whether by agreement or by constitutional change, concurrent debate could provide more of a focus for pre-budget consultation of both a federal-provincial kind and a public-sector and private-sector kind. The obvious argument against this type of coordination of timing is that no finance minister would give up the tactical flexibility that is provided by uncertain budget dates. Moreover, even if budget dates are agreed to, the minister could always get around this by making an economic statement. Although the increased frequency of budgets is to a certain extent a part of the problem, it is by no means the whole problem. Hence, the idea of having eleven coordinated budgets is not in itself central to the overall thrust of our argument. More important is the

combined rationale regarding the imbalances, which, if addressed through basic parliamentary institutions, especially at the federal level, could help improve one of the important functions of any budget — namely that of providing an occasion and a forum in which economic and social goals and priorities are discussed and communicated. We obviously do not regard this as a reform millennium. However, when combined with the related parts of the reform package cited below, the proposed changes are worthy of serious consideration.

No one familiar with the complexity of modern political and economic life can expect consultation to occur in one political arena only. Intergovernmental relations and relations between the public and private sectors in advance of the preparation of a budget will occur in several arenas. If, as suggested above, there is a focussed parliamentary forum, then a further contribution to a balanced sense of budget reform could be envisaged — one that was focussed on the House of Commons and thus on Canada's primary democratic representative institution.

It is in this forum that a more concerted attempt could be made to begin addressing the two imbalances we spoke of earlier — namely the relative lack of scrutiny of the evolving tax system compared with the spending system, and the failure to subject the fiscal, tax, and spending ideas and proposals of key private interests to more sustained scrutiny. This latter category could also include the various economic think tanks and forecasting bodies. Without going into the details here, we can sketch out the broad contours of such a reformed process.

In the eight weeks prior to the budget, a standing House of Commons committee on the budget (revenue and expenditure), whose proceedings would be televised (in the same way that the 1982 committee on the constitution was), would conduct hearings at which the positions of key interests, as well as the government's performance, would be subject to sustained scrutiny. We stress the importance of televised hearings. The constitution committee saw Parliament at its best, in a setting that was not question period. There was good partisan criticism, but persistent non-partisan comment was also brought to bear. Representatives of interest groups at the hearings could not get away with the usual brief and often glib 20-minute presentation. They were subject to sustained scrutiny. Moreover, Canadians in reasonable numbers had the opportunity to witness the scrutiny and the positions taken, and they were able to do so in a more direct way, without the three-minute veneer that is so often supplied by television on the national news or brief accounts in the press. Once again, no millennium is envisaged here. Ten million Canadians will not suddenly become rabid fans of fiscal policy television! What is advocated, however, is the need to visualize reasonable new or refurbished forums which somehow cover and approximate the basic dimensions of the modern making of the budget and the governmental and private interests involved in it.

With respect to the imbalance in the scrutiny of tax policy, we believe some increased analytical capacity is necessary to support the above committee (perhaps the Economic Council of Canada with a revised mandate). The analytical task that is envisaged is not one of assessing the "systems" of tax decision making but rather of actual tax policy impacts. The forum envisaged here is one in which elected politicians, backed up by proper analytical support, can scrutinize the tax decisions that have been made (or are being proposed) in pre-budget settings or in the course of debating other issues throughout the year. In this regard, the analytical resources of a body like the Economic Council, augmented by personnel in the Auditor General's Office, could serve as the base for both tax and expenditure analysis.

Critics of this line of reform will properly raise doubts about it. Some may argue that it is merely a new form of naive belief in a "rational" political process — in other words that if we get the debating forums right, we shall all be better off. Others may take up the argument that other elements of parliamentary reform would have to be considered. However, those who hold such views must put their lines of argument to the test of comprehensiveness to which we have attempted to subject our own analysis.

Restraint and Deficits

A practical test of the need for a broader view of reform is found in our analysis of restraint budgeting which, as Chapter 9 showed, is viewed as a broader concept than that embraced by the debate about deficits or expenditure control. Four points deserve emphasis in this regard. First, we have shown that restraint has taken many forms and has been practised for a far longer period than the rhetoric of the early 1980s would lead one to believe. The restraint strategies of Ontario and British Columbia stand out as to both time of origin and political tactics. The federal government did restrain spending significantly in the latter half of the 1970s, a fact that was not stressed in the larger cacophony of debate at the time. A second point is that deficits mean very different things at the provincial level. They directly affect the provinces' bond ratings, whereas there is no such direct effect on the federal government. A third and closely related point is that if the federal deficit is to be reduced significantly, there are virtually no strategies of federal deficit reduction that would not involve the main joint federal-provincial arrangements in major ways, especially for the "have not" provinces. Thus, measures to reduce the federal deficit will in all likelihood increase provincial deficits. In combination, these points, along with our overall line of argument, suggest that whatever strategy of deficit reduction is devised, it must be fair in all the dimensions in which politics will hold sway — intergovernmental, public-private, and tax versus expenditure.

Our line of argument is not constructed on a single-dimensional plane. It does not envision "one-stop shopping" for budgetary consultation and debate. It recognizes fully the enormous and valuable staying power of key institutional bases of political power that are rooted in federalism, cabinet-parliamentary government, and the right of interests to associate freely and to lobby. At the same time, it points out conclusively the persistent mismatch between the underlying realities of decisions and the patterns of spending and taxing, and the way that these are discussed. Not all of the mismatch is a problem, nor are we imputing blame to any single institution. Political systems always struggle with the problem of how to learn and adapt. Core institutions are always related to one another. Yet some of the mismatches must be corrected. We have seen significant discrepancies in the way in which budgetary realities and budgetary myths arose: between changes in the tax system and views of intervention; between revenue loss and expenditure growth as "causes" of the deficit in different periods; among the de facto versus rhetorical achievement of restraint goals defined in various ways; on the realities of the growth of government in general and of particular program areas at different times; and in relation to which level of government was contributing most to the growth. The main way to begin to nudge "the system" into a closer match is to discover forums of basic legitimate representation and relate them to modern modes of communication and information in a more sustained way than has been attempted thus far.

Notes

Introduction

1. Paul G. Thomas, "Public Administration and Expenditure Management," *Canadian Public Administration* 25 (4) (Winter 1982): 674–95.
2. Ibid, p. 675.

Chapter 1

1. J. Mallory, *The Structure of Canadian Government*, 2d ed. (Toronto: McGraw-Hill Ryerson, 1980).
2. Donald Smiley, *Canada in Question*, 3rd ed. (Toronto: McGraw-Hill Ryerson, 1980).
3. David C. Smith, ed., *Economic Policy Advising in Canada* (Montreal: C.D. Howe Research Institute, 1981).
4. G. Bruce Doern and R.W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Toronto: Methuen, 1983), chap. 3; Garth Stevenson, *Unfulfilled Union* (Toronto: Macmillan, 1979); G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Toronto: Methuen, 1985), chap. 1.
5. For a range of views, see Robert D. Tollison, "Rent Seeking: A Survey," *Kyrlos* 35 (4) (1982): 575–602; Thomas J. Courchene, "Entitlements versus Efficiency," *Policy Options* (July 1984): pp. 16–19; and Alan Cairns and Cynthia Williams, "Constitutionalism, Citizenship and Society in Canada: An Overview," in *Constitutionalism, Citizenship and Society in Canada*, volume 33 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
6. Richard A. Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959), chap. 1.
7. Doern and Phidd, *Canadian Public Policy*, chap. 2.
8. D.G. Hartle, *Public Policy Decision Making and Regulation* (Montreal: Institute for Research on Public Policy, 1979); Harold D. Clark et al., *Absent Mandate* (Toronto: Gage, 1984).
9. H. Heclo and A. Wildavsky, *The Private Government of Public Money* (London: Macmillan, 1973); Doern and Phidd, *Canadian Public Policy*, chaps. 7–11.
10. Economic Council of Canada, *Steering the Course* (Ottawa: Minister of Supply and Services Canada, 1984), chap. 2.
11. Allan M. Maslove, "Tax Expenditures, Tax Credits, and Equity," in *How Ottawa Spends, 1981*, edited by G. Bruce Doern (Toronto: James Lorimer, 1981), chap. 7.
12. See M.J. Treblicock et al., *The Choice of Governing Instruments* (Ottawa: Minister of Supply and Services Canada, 1982); Doern and Phidd, *Canadian Public Policy*, chaps. 5 and 12; and W.T. Stanbury and L. Howard, "The Size, Scope and Growth of Governments in Canada," in *Probing Leviathan*, edited by George Lermer (Vancouver: Fraser Institute, 1984), chap. 4 and appendix.
13. R.W. Phidd and G. Bruce Doern, *The Politics and Management of Canadian Economic Policy* (Toronto: Macmillan, 1978); D.G. Hartle, *The Revenue Budget Process of the Government of Canada* (Toronto: Canadian Tax Foundation, 1982). See also W. Irwin Gillespie, "The Department of Finance and PEMS: Increased Influence or Reduced Monopoly Power?" in *How Ottawa Spends, 1984: The New Agenda*, edited by Allan M. Maslove (Toronto: Methuen, 1984), chap. 6.
14. Department of Finance, *Budget Reform* (Ottawa: Minister of Supply and Services Canada, 1982); Evert Lindquist, *Consultation and Budget Secrecy* (Ottawa: Conference Board of Canada, 1984).

15. Doern and Phidd, *Canadian Public Policy*, chap. 12: Hartle, *The Revenue Budget Process*; David Good, *The Politics of Anticipation: Making Federal Tax Policy* (Ottawa: Carleton University, School of Public Administration, 1980).

Chapter 2

1. This brief account draws on several basic sources: J.E. Hodgetts, *Canadian Public Service* (Toronto: University of Toronto Press, 1973); Richard W. Phidd and G. Bruce Doern, *The Politics and Management of Canadian Economic Policy* (Toronto: Macmillan, 1978); Paul G. Thomas, "Public Administration and Expenditure Management," *Canadian Public Administration* 23 (4) (Winter 1982): 674–95; D. G. Hartle, *The Revenue Budget Process of the Government of Canada* (Toronto: Canadian Tax Foundation, 1982); and Royal Commission on Financial Management and Accountability, *Final Report* (Ottawa: Minister of Supply and Services Canada, 1979).
2. Hartle, *The Revenue Budget Process of the Government of Canada.*
3. Thomas J. Courchene, *Money, Inflation and the Bank of Canada* (Montreal: C.D. Howe Research Institute, 1981).
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5. A.R. Bailey and D.G. Hull, *The Way Out* (Montreal: Institute for Research on Public Policy, 1980); Richard M. Bird, *Charging for Public Services: A New Look at an Old Idea* (Toronto: Canadian Tax Foundation, 1976).
6. Robin W. Boadway and Harry M. Kitchen, *Canadian Tax Policy* (Toronto: Canadian Tax Foundation, 1980); Allan M. Maslove, "Tax Expenditures, Tax Credits and Equity," in *How Ottawa Spends, 1981*, edited by G. Bruce Doern (Toronto: James Lorimer, 1981), chap. 7.
7. Edward A. Carmichael, *Tackling the Federal Deficit* (Toronto: C.D. Howe Institute, 1984); David Wolfe "The Politics of the Deficit," in *The Politics of Economic Policy*, volume 40 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985); David W. Conklin and Thomas J. Courchene, *Deficits: How Big and How Bad?* (Toronto: Ontario Economic Council, 1983); Economic Council of Canada, *Steering the Course* (Ottawa: Minister of Supply and Services Canada, 1984), chaps. 2 and 3.
8. For a review of federal budget speeches and Throne speeches in the Trudeau era, see G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Toronto: Methuen, 1983), chap. 10.
9. Ibid., chap. 15
10. Robin W. Boadway, *Intergovernmental Transfers in Canada* (Toronto: Canadian Tax Foundation, 1980); Richard M. Bird, *Financing Canadian Government: A Quantitative Overview* (Toronto: Canadian Tax Foundation, 1979), chap. 2.

Chapter 3

1. Economic Council of Canada, *Financing Confederation* (Ottawa: Minister of Supply and Services Canada, 1982); Robin W. Boadway, *Intergovernmental Transfers in Canada* (Toronto: Canadian Tax Foundation, 1980); S. Dunn and Richard Simeon, *The Politics of Fiscal Federalism* (Toronto: Ontario Economic Council, 1984).
2. Donald Smiley, *Canada in Question*, 3d ed. (Toronto: McGraw-Hill Ryerson, 1980); Garth Stevenson, *Unfulfilled Union* (Toronto: Macmillan, 1984); Marsha A. Chandler and William M. Chandler, *Public Policy and Provincial Politics* (Toronto: McGraw-Hill Ryerson, 1979).
3. Alan Cairns "The Governments and Societies of Canadian Federalism," *Canadian Journal of Political Science* 10 (4) (1977): 695–725.
4. R.A. Young, P. Faucher, and André Blais, "The Concept of Province Building: A Critique," paper presented to the Canadian Political Science Association, Vancouver, June 1983.

5. In recent years several observers of the Canadian federal system have become concerned about attempts at province building and other measures which result in interprovincial barriers to the free flow of economic resources. Examples include restrictions on the purchase of land by out-of-province residents and labour-hiring restrictions in Quebec and Newfoundland. The evidence suggests that these barriers are not very significant but may grow in the future. On these points see Kenneth Norrie, Richard Simeon and Mark Krasnick, *Federalism and Economic Union in Canada*, volume 59 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
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7. On tax harmonization, see Richard M. Bird, "Tax Harmonization and Federal Finance: A Perspective on Recent Canadian Discussion," *Canadian Public Policy* 10 (September 1984): 253–66; and Dunn and Simeon, *The Politics of Fiscal Federalism*.
8. The net stimulus from the lower tax levied on this activity may have a regionally neutral expansionary effect.
9. See, for example, W. Oates, *Fiscal Federalism* (New York: Harcourt Brace Jovanovich, 1972); and R. Musgrave and P. Musgrave, *Public Finance in Theory and Practice* (New York: McGraw-Hill, 1973).
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11. A. Breton and A. Scott, *The Economic Constitution of Federal States* (Toronto: University of Toronto Press, 1978).
12. Malcolm Taylor, *Health Insurance and Canadian Public Policy* (Montreal: McGill-Queen's University Press, 1978); Stefan Dupré et al., *Federalism and Policy Development* (Toronto: University of Toronto Press, 1973); Keith Banting, *The Welfare State and Canadian Federalism* (Montreal: McGill-Queen's University Press, 1982); R. Simeon, *Federal-Provincial Diplomacy* (Toronto: University of Toronto Press, 1972); G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Toronto: Methuen, 1984).
13. Breton and Scott, *The Economic Constitution of Federal States*.
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15. D.G. Hartle et al., *A Separate Personal Income Tax for Ontario: An Economic Analysis* (Toronto: Ontario Economic Council, 1983); Ontario Economic Council, *A Separate Personal Income Tax for Ontario: An Ontario Economic Council Position Paper* (Toronto: Ontario Economic Council, 1983).

Chapter 4

1. As stressed in the introduction to this monograph, our analysis of federal budgeting relies on secondary sources in existing literature. The authors have, however, been active participants in the development of some of this literature on a continuing basis through research for the School of Public Administration's *How Ottawa Spends*, an annual analysis of federal spending.
2. For general analysis of the federal budget system, see R. Van Loon, "Ottawa's Expenditure Process: Four Systems in Search of Coordination," in *How Ottawa Spends, 1983*, edited by G. Bruce Doern (Toronto: James Lorimer, 1983), pp. 93–120; D.G. Hartle, *The Expenditure Budget Process in the Government of Canada* (Toronto: Canadian Tax Foundation, 1978); and G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Toronto: Methuen, 1983), chaps. 11 and 12.
3. These were abolished by the short-lived Turner government in 1984, along with two

ministries of state — for social development and for regional and economic development.

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5. Richard W. Phidd and G. Bruce Doern, *The Politics and Management of Canadian Economic Policy* (Toronto: Macmillan, 1978); Richard French, *How Ottawa Decides* (Toronto: James Lorimer, 1980).
6. Phidd and Doern, ibid., chaps. 4, 6 and 7. For a comparative analysis of the growing power of central banks, see "Reluctantly at the Helm," *Economist*, September 22, 1984, pp. 5–68.
7. For a more detailed analysis, see S.L. Sutherland and G. Bruce Doern, *Bureaucracy in Canada: Control and Reform*, volume 43 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), chap. 3.
8. Malcolm Taylor, *Health Insurance and Canadian Public Policy* (Montreal: McGill-Queen's University Press, 1978).
9. G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Toronto: Methuen, 1985), chap. 5.
10. Sutherland and Doern, *Bureaucracy*, chap. 3.
11. Ibid., chaps. 3 and 5.
12. Allan M. Maslove, "Loans and Loan Guarantees: Business as Usual Versus the Politics of Risk," in *How Ottawa Spends, 1983*, edited by G. Bruce Doern (James Lorimer, 1983), pp. 121–23.
13. R. Van Loon, "Reforming Welfare in Canada," *Public Policy* 27 (4) (Fall 1979): 469–504; Keith Banting, *The Welfare State and Canadian Federalism* (Montreal: McGill-Queen's University Press, 1982).
14. Michael Prince, "Whatever Happened to Compassion? Liberal Social Policy 1980–84," in *How Ottawa Spends, 1984*, edited by Allan M. Maslove (Toronto: Methuen, 1984), pp. 79–121.
15. Eugene Swimmer, "Six and Five," in *How Ottawa Spends, 1984*, edited by Allan M. Maslove (Toronto: Methuen, 1984), pp. 240–81.
16. French, *How Ottawa Decides*; Doern and Phidd, *Canadian Public Policy*, chap. 15.
17. Harvey Lithwick, "Regional Policy: The Embodiment of Contradictions," in *How Ottawa Spends, 1982*, edited by G. Bruce Doern (Toronto: James Lorimer, 1982), pp. 131–46; Economic Council of Canada, *Living Together* (Ottawa: Minister of Supply and Services Canada, 1980).
18. Doern, *How Ottawa Spends, 1982*, chap. 1.
19. In 1982 the Ministry of State for Economic Development was renamed Ministry of State for Regional and Economic Development.
20. Doern, *How Ottawa Spends, 1982*, chap. 1. See also Kenneth Norrie, "Not Much to Crow About: A Primer on the Statutory Grain Freight Rate Issue," *Canadian Public Policy* 9 (December 1983): 434–45.
21. For an analysis of the NEP and its pricing, fiscal, and expenditure components and impacts, see Doern and Toner, *The Politics of Energy*, chaps. 1, 2, 9 and 10. A separate energy envelope ceased to exist after the Mulroney Conservatives assumed power in 1984.
22. Michael Tucker, *Canadian Foreign Policy* (Toronto: McGraw-Hill Ryerson, 1980); Dan Middlemiss, "The Department of National Defence," in *Spending Tax Dollars 1980–81*, edited by G. Bruce Doern (Ottawa: Carleton University, School of Public Administration, 1980), chap. 3.
23. G. Bruce Doern, "Liberal Priorities 1982: The Limits of Scheming Virtuously," in *How Ottawa Spends, 1983*, edited by G. Bruce Doern (Toronto: James Lorimer, 1982), chap. 1.
24. Doern and Phidd, *Canadian Public Policy*, chap. 10.

Chapter 5

1. David A. Good, *The Politics Of Anticipation: Making Canadian Federal Tax Policy* (Ottawa: Carleton University, School of Public Administration, 1980).
2. D.G. Hartle, *The Revenue Budget Process of the Government of Canada: Description, Appraisal and Proposals* (Toronto: Canadian Tax Foundation, 1982). See also Richard W. Phidd and G. Bruce Doern, *The Politics and Management of Canadian Economic Policy* (Toronto: Macmillan, 1978).
3. W. Irwin Gillespie, "The Department of Finance and PEMS: Increased Influence or Reduced Monopoly Power?" In *How Ottawa Spends, 1984: The New Agenda*, edited by Allan M. Maslove (Toronto: Methuen, 1984).
4. Evert Lindquist, *Consultation and Budget Secrecy* (Ottawa: Conference Board of Canada, 1984), chap. 3.
5. The interpretation of this prohibition can be carried to ridiculous extremes, as was done when Marc Lalonde added $200 million in spending to his April 1983 budget so that an inadvertent slip to the media of an expenditure number would be "wrong" and therefore not a budget leak.
6. Without commenting on their substantive content, the NEP budget (October 1980) and the "six and five" budget (June 1982) were politically successful in these terms.
7. Good, *The Politics of Anticipation*.
8. W. Irwin Gillespie, "The 1981 Federal Budget: Muddling Through or Purposeful Tax Reform?" *Canadian Tax Journal* 31 (November/December, 1983).
9. Allan M. MacEachen, *The Budget Process* (Ottawa: Department of Finance, April 1982).
10. Examples include the budget speeches of the Hon. Donald Macdonald (May 1976) and the Hon. John Crosbie (December 1979).
11. Douglas D. Purvis and Constance Smith, "Fiscal Policy in Canada: 1963–84," in *Fiscal and Monetary Policy*, volume 21 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985). See also G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Toronto: Methuen, 1983), chap. 10.
12. For example, Donald Macdonald stated in March 1977: "I want to emphasize that the federal government recognizes and accepts its responsibility for action to help achieve these goals. But responsibility for the economy rests on others as well. Both political and economic power are widely dispersed in this country, reflecting Canada's diversities and protecting our fundamental liberties. All those who share power also share the responsibility that goes with it for the attainment of our economic goals." Mr. Macdonald went on to refer specifically to the responsibilities of business and labour leaders. Jean Chrétien stated in October 1977: "We must realize not only that the resources of government are limited, but also that we do not want in Canada the type of society where everything comes from the State. . . . To maintain our standard of living, all Canadians must learn to work harder, to be more efficient and to be more productive." Allan MacEachen stated in October 1980: "We have all learned that we cannot achieve full employment, stable prices and other economic goals simply by influencing the demands for goods and services by cutting taxes or by increasing government expenditure — or alternatively by raising taxes and cutting spending."
13. For example, Donald Macdonald, in March 1977, emphasized the importance of "avoiding wide swings in the stance of policy," the commitment to expenditure restraint, and several other factors that constrained fiscal policy. John Crosbie's budget, in December 1979, became famous for its "short-term pain for long-term gain" theme. The MacEachen budget of October 1980 said: "There are no quick solutions, so we will need to be patient and plan in a long-term framework. There are no single solutions either, so we need to combine structural, industrial and regional policies with the right setting of fiscal and monetary policy."
14. Macdonald, March 1977, and MacEachen, October 1980: "The maintenance of government expenditures within the rate of growth in the economy. . ."

15. This point is reminiscent of a similar argument about the behaviour of the Bank of Canada, namely that it "would attempt to reduce expectations of what can be achieved from the resources applied to central banking." See John F. Chant and Keith Acheson, "Mythology and Central Banking," *Kyrlos* 26 (2) (1973): 362–79.
16. Department of Finance, *Government of Canada Tax Expenditure Account*, December 1979 and December 1980. Also on tax expenditures, see Allan M. Maslove, "The Other Side of Spending: Tax Expenditures in Canada," in *The Public Evaluation of Government Spending*, edited by G. Bruce Doern and Allan M. Maslove (Montreal: Institute for Research on Public Policy, 1979); Allan M. Maslove, "Tax Expenditures, Tax Credits and Equity," in *How Ottawa Spends 1981*, edited by G. Bruce Doern (Toronto: James Lorimer, 1981); and Roger S. Smith, *Tax Expenditures: An Examination of Tax Incentives and Tax Preferences in the Canadian Federal Income Tax System* (Toronto: Canadian Tax Foundation, 1979).
17. The tax expenditure data cannot be compared directly to the revenue data in Tables 5.1 and 5.2 because of differences in the accounting bases. Nevertheless, comparisons of relative growth rates and orders of magnitude are valid.
18. See for example David A. Wolfe "The Politics of the Deficit," in *The Politics of the Deficit*, volume 40 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
19. Allan M. Maslove, "The New Agenda: The Issue and the Constraints," in *How Ottawa Spends, 1984: The New Agenda*, edited by Allan M. Maslove (Toronto: Methuen, 1984); Economic Council of Canada, *Steering the Course* (Ottawa: Minister of Supply and Services Canada, 1984), chap. 2.

Chapter 6

1. The most basic source is found in the Canadian Tax Foundation's publications on provincial finances. These are basically data with only limited analysis.
2. Some of these themes are ably discussed in D.G. Hartle, *The Expenditure Budget Process in the Government of Canada* (Toronto: Canadian Tax Foundation, 1978); H.V. Kroeker, *Accountability and Control: The Government Expenditure Process* (Montreal: C.D. Howe Research Institute, 1978); and Fred Schindeler, *Responsible Government in Ontario* (Toronto: University of Toronto Press, 1969).
3. Most provinces use the term "departments," while Ontario and British Columbia use the term "ministry."
4. J.E. Hodgetts and O.P. Dwivedi, "Administration and Personnel," in *The Provincial Political Systems: Comparative Essays*, edited by David J. Bellamy et al. (Toronto: Methuen), p. 345.
5. For provincial data, see S.L. Sutherland and G. Bruce Doern, *Bureaucracy in Canada: Control and Reform*, volume 43 of the research studies prepared for The Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), chap. 4.
6. Christopher Dunn, "The Evolution of Financial Administration Legislation in Western Canada," unpublished Ph.D. diss., University of Saskatchewan, April 1984, pp. 2–3. Though Dunn is speaking only of the western provinces, his remarks apply to all provinces. See also Schindeler, *Responsible Government*, chap. 3.
7. There have been occasional deviations, though, such as in Manitoba. On the Quebec development, see *Financial Post*, October 9, 1982, p. 53.
8. Kroeker, *Accountability and Control*, p. 24.
9. Norman Ward, *The Public Purse: A Study in Canadian Democracy* (Toronto: University of Toronto Press, 1962), and Schindeler, *Responsible Government*, chaps. 7 and 8.
10. J.I. Gow, "The Quebec Budget Process," paper prepared for the Royal Commission on the Economic Union and Development Prospects for Canada, July 1984, p. 9.
11. Schindeler, *Responsible Government*, pp. 156 and 161, and J. Terence Morley et al., *The Reins of Power* (Vancouver: Douglas and McIntyre, 1983), chap. 2.

12. Schindeler, ibid., p. 249. See also Christopher Dunn, "The Budget Process in Western Canada Legislatures," unpublished paper (Saskatoon: University of Saskatchewan, Department of Political Science, 1984), pp. 8–11.
13. Schindeler, ibid., pp. 243–48; Morley et al., *Reins of Power*, pp. 38–41; Philip Laundy, "Legislatures," and R.M. Burns, "Budgeting and Finance," in *The Provincial Political Systems: Comparative Essays*, edited by David J. Bellamy et al. (Toronto: Methuen), pp. 284 and 332–33 respectively.
14. Dunn, "The Budget Process," pp. 13–14 and interviews.
15. This next paragraph draws extensively on Dunn's "The Budget Process in Western Canadian Legislatures," supplemented by our own research and interview data.
16. Dunn, "The Budget Process," pp. 6–7.
17. Ibid., pp. 18–19. On question periods and rules of closure, see Laundy, "Legislatures," pp. 287–91.
18. John J. Kelly and Hugh R. Hanson, *Improving Accountability: Canadian Public Accounts Committees and Legislative Auditors* (Ottawa: Canadian Comprehensive Auditing Foundation, 1981), p. 7.
19. Ibid., pp. 7–8. See also Simon McInnes, "Improving Legislative Surveillance of Provincial Public Expenditures: The Performance of Public Accounts Committees and Auditors General," *Canadian Public Administration* 20 (1977): 36–86.
20. Burns, "Budgeting and Finance," p. 326; Kelly and Hanson, *Improving Accountability*, pp. 7–10; McInnes, ibid., pp. 65–66; and Schindeler, *Responsible Government*, pp. 250–57.
21. McInnes, ibid. Kelly and Hanson's more recent survey (1981) supports the conclusion reached by McInnes.
22. Kelly and Hanson, *Improving Accountability*, p. 10.
23. Ibid., p. 55. See also the Canadian Institute of Chartered Accountants, *Financing Reporting by Governments* (Toronto: Canadian Institute of Chartered Accountants, 1980), chap. 11.
24. Gow, "Quebec Budget," pp. 8–9.
25. Kelly and Hanson, *Improving Accountability*, p. 64.
26. Dunn, "The Budget Process," p. 27.
27. Kelly and Hanson, *Improving Accountability*, p. 103.
28. Schindeler, *Responsible Government*, chap. 8, and Kroeker, *Accountability and Control*, chap. 2.
29. B.D. Tocher, *Resource Allocation in Government: A Comparative Review and Analysis of Canadian Experience and Some International Perspectives* (Ottawa: Carleton University, School of Public Administration, May 1982), p. 32. See also J.A. Riffel et al., *Program Accounting and Budgeting in Alberta: Retrospect and Prospect* (Edmonton: Human Resources Research Council, 1972).
30. The following discussion relies extensively upon James Cutt, "Zero-Base Budgeting in the Government of British Columbia," *Canadian Tax Journal* 32 (1) (1984), pp. 64–78, as well as on interviews.
31. Ibid., pp. 67 and 68. See also James Cutt and Richard Ritter, "Public Non-Profit Budgeting: The Evolution and Application of Zero-Base Budgeting" (manuscript 1984); and Government of British Columbia, Treasury Board, *Budget Estimates Preparation Procedures*, 1978–80 and *Budget Estimates Policy and Procedures*, 1981.
32. Ibid., p. 70.
33. James Cutt, "Postscript," unpublished manuscript (undated), p. 2.
34. Peter Aucoin, "The Expenditure Budget Process: Management Systems and Political Priorities," study prepared for the School of Public Administration, Dalhousie University, 1984.
35. Tocher, *Resource Allocation*, pp. 3.25–3.26. See also D.S. Campbell, "Planning, Programming and Budgeting — the Ontario Government," *Cost and Management* (July–August 1975), pp. 6–13.

36. Aucoin, "Expenditure Budget Process," p. 10.
37. Interviews.
38. Gow, "Quebec Budget." See also L. Burgeat, R. Dussault and B. Ouellet, *L'administration québécoise* (Quebec: ENAP et les Presses de l'Université du Québec, 1982), pp. 140–64; and Jacques Benjamin, "La rationalisation des choix budgétaires: les cas québécois et canadiens," *Canadian Journal of Political Science* 5 (September 1972): 348–64.
39. See André Blais and K. McRoberts, "Dynamique et contraintes des finances publiques au Québec," *Politique* 3 (Winter 1983): 27–62; J.I. Gow, "Perspectives historiques sur les compressions budgétaires," *Politique* 3 (Winter 1983): 5–25; and Daniel Latouche, "The Organizational Counterculture of State-Owned Enterprises: An Exploratory Study of the Quebec Case," study presented to the Economic Council of Canada Conference on State-Owned Enterprises, Ottawa, September 1984.
40. Aaron Wildavsky, *Budgeting: A Comparative Theory of Budgeting Processes* (Boston: Little, Brown, 1975).
41. *The Citizen*, Ottawa, October 12, 1983.
42. Government of Quebec, "Additional Information Relative to the Government's Budgetary and Financial Policy," *1983/84 Budget*, (November 15, 1983).
43. Alberta 1972 Budget Address, pp. 3–4.
44. Alberta 1976 Budget Address, p. 8.
45. British Columbia Budget Papers, 1982, p. 62.
46. Dunn, "The Budget Process," p. 28.
47. Cutt, "Zero-Base Budgeting," p. 69.
48. Nova Scotia, *Annual Report of the Auditor General, 1982*, p. 9.
49. For examples, see Quebec budget speeches of 1975/76, pp. 15 and 37, and 1978/79, pp. 41, 48 and 53.
50. Interviews.
51. British Columbia 1980 Budget Papers, p. 1. It can be noted that Saskatchewan also published a medium-term forecast, in a document called "Economic and Financial Position."
52. For example, W.A.C. Bennett, in every one of his budgets (1952–71), compared the current fiscal year to 1952, the first year of his government.
53. British Columbia Background Papers to 1981 Budget, p. 16.

Chapter 7

1. See, for example, Economic Council of Canada, *Living Together* (Ottawa: Minister of Supply and Services Canada, 1980); Anthony Careless, *Initiative and Response* (Montreal: McGill-Queen's University Press, 1977); Harvey Lithwick, *Regional Economic Policy: The Canadian Experience* (Toronto: McGraw-Hill Ryerson, 1978); and Economic Council of Canada, *Western Transition* (Ottawa: Minister of Supply and Services, 1984).
2. *Western Transition*, p. 29.
3. Ibid., p. 29.
4. Marsha A. Chandler and William M. Chandler, *Public Policy and Provincial Politics* (Toronto: McGraw-Hill Ryerson, 1979), chap. 4 and Martin Robin, ed., *Canadian Provincial Politics*, 2d ed. (Toronto: Prentice-Hall, 1978).
5. On B.C. politics, see Edwin Black, "British Columbia, the Politics of Exploitation," in *Social and Cultural Change in Canada*, edited by W.E. Mann (Toronto: Copp Clark, 1970), pp. 112–29; Martin Robin, *Pillars of Profit: The Company Province 1934–1972* (Toronto: McClelland and Stewart, 1973); Paddy Sherman, *Bennett* (Toronto: McClelland and Stewart, 1966); J. Terence Morley et al., *The Reins of Power* (Vancouver: Douglas and McIntyre, 1983); and Paul Tenant, "The NDP Government

of British Columbia: Unaided Politicians in an Unaided Cabinet," *Canadian Public Policy* (Autumn 1977): 489–503.

6. Christopher Dunn, "Responsible Government and the Budgetary Process in Western Canada," paper prepared for the Royal Commission on the Economic Union and Development Prospects for Canada, 1984, p. 8.
7. On Alberta politics in the Lougheed era, see John Richards and Larry Pratt, *Prairie Capitalism* (Toronto: McClelland and Stewart, 1979); G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Toronto: Methuen, 1985).
8. The somewhat mixed results of this strategy are acknowledged by Lougheed in a 1984 white paper which he took a direct hand in writing: Government of Alberta, *White Paper Proposals for an Industrial and Science Strategy for Albertans 1985 to 1990* (Edmonton: Government of Alberta, 1984). See also Economic Council of Canada, *Western Transition.*
9. Allan Warrack, *The Alberta Heritage Savings Trust Fund: An Historical Evaluation* (Ottawa: Economic Council of Canada, 1982).
10. On Quebec politics, see Graham Fraser, *P.Q.: René Lévesque and the Parti Québécois in Power* (Toronto: Macmillan, 1984); Hubert Guindon, "The Modernization of Quebec and the Legitimacy of the Canadian State," *Canadian Review of Sociology and Anthropology* 15 (2) (1978): 227–45; Denis Monière, *Ideologies in Quebec* (Toronto: University of Toronto Press, 1981); James deWilde, "The Parti Québécois in Power," in Richard Simeon, *Must Canada Fall?* (Montreal: McGill-Queen's University Press, 1971), pp. 5–27; Daniel Latouche, "The Constitutional Misfire of 1982," in *And No One Cheered*, edited by Keith Banting and Richard Simeon, (Toronto: Methuen, 1983), pp. 96–118; and Richard French, "Governing Without Business: The Parti Québécois in Power," paper presented to the Conference on Business-Government Relations, York University, April 26–27, 1984.
11. C.D. Howe Research Institute, *Why Do the Balances Differ on Federal Receipts and Expenditures in Quebec?* (Montreal: C.D. Howe Research Institute, 1977); Judith Maxwell and Gérard Belanger, *Taxes and Expenditures in Quebec and Ontario: A Comparison* (Montreal: C.D. Howe Research Institute, 1978); and André Blais and and K. McRoberts, "Dynamiques et constraintes des finances publiques au Québec," *Politique* 3 (Winter 1983): 27–62.
12. Richard Simeon, *Federal-Provincial Diplomacy* (Toronto: University of Toronto Press, 1972).
13. Gérard Hébert, "Public Sector Bargaining in Quebec," in *Conflict or Compromise: The Future of Public Sector Industrial Relations*, edited by M. Thompson and G. Swimmer (Montreal: Institute for Research on Public Policy, 1984).
14. Doern and Toner, *Politics of Energy*, chap. 7.
15. Gow, "The Quebec Budget Process," paper prepared for the Royal Commission on the Economic Union and Development Prospects for Canada, 1984.
16. Fred Schindeler, *Responsible Government in Ontario* (Toronto: University of Toronto Press, 1969) and Donald C. MacDonald, ed., *The Government and Politics of Ontario*, 2d ed. (Toronto: Van Nostrand Reinhold, 1980).
17. Doern and Toner, *Politics of Energy*, chaps. 5 and 7.
18. Peter Aucoin, "The Nova Scotia Expenditure Budget Process," unpublished paper, School of Public Administration, Dalhousie University, Halifax, 1984. For a historical analysis of Nova Scotia politics, see Murray Beck, *The Government of Nova Scotia* (Toronto: University of Toronto Press, 1957).
19. Doern and Toner, *Politics of Energy*, chap. 7.
20. One should recognize, however, that revenue distribution is not a simple function of the wealth of the jurisdictions. Ontario has the lowest level of per capita total revenues, while it is at about the median for per capita revenues from own sources.
21. Chandler and Chandler, *Public Policy*, p. 295. Allan Kornberg et al., *Representative Democracy in the Canadian Provinces* (Toronto: Prentice-Hall, 1982), stress that the similarities of the provinces are both numerous and fundamental — "well-educated

populations, mixed economies, predominantly liberal value systems, a full panoply of civil rights and liberties, numerous organized interest groups, universal suffrage, political parties competing in regular, free elections, and, of a common federal government" (p. ix).

Chapter 8

1. G. Bruce Doern and Peter Aucoin, eds., *Public Policy in Canada, Organization, Process, and Management* (Toronto: Macmillan, 1979), chap. 2.
2. R.M. Burns, "Budgeting and Finance," in *The Provincial Political Systems: Comparative Essays*, edited by David J. Bellamy et al. (Toronto: Methuen, 1976), pp. 338–39. See also C.L. Barber, *Theory of Fiscal Policy as Applied to a Province*, study prepared for the Ontario Committee on Taxation (Toronto: Queen's Printer, 1967).
3. Nova Scotia Budget 1982.
4. Ibid. See also the budget speeches of British Columbia, Ontario and Quebec for similar sentiments.
5. K. Bryden, "The Politics of Budgets," in *The Government and Politics of Ontario*, 2d ed., edited by Donald C. MacDonald (Toronto: Van Nostrand Reinhold, 1980) p. 434.
6. Ontario Budget Statement 1979.
7. B.C. Budget Paper 1982, p. 26.
8. Quebec Budget Speech 1975/76, p. 37.
9. Quebec Budget Speech 1978/79, p. 42.
10. Ibid., p. 43.
11. Quebec Budget Speech 1980/81, p. 37.
12. Ibid., pp. 43–44.
13. Bryden, "Politics of Budgets," p. 436.
14. Burns, "Budgeting and Finance," p. 338.
15. Canada, Department of Finance, *Background Paper on Fiscal Arrangements* (Ottawa: Minister of Supply and Services Canada, 1980), p. 19.
16. Ibid., p. 24.
17. See Table A-1, Appendix to this study.
18. Burns, "Budgeting and Finance," p. 339. See also Barber, *Theory of Fiscal Policy*.
19. Marsha Chandler and William Chandler, *Public Policy and Provincial Politics* (Toronto: MacGraw-Hill, 1976), pp. 136–37.
20. Ibid., p. 128.
21. Quebec Budget Speech 1968/69, Ontario Budget Statement 1968, Ontario Budget Statement 1969, and Quebec Budget Speech 1975/76.
22. British Columbia Budget Speech 1981.
23. For example, see the Nova Scotia budgets of 1980 and 1981, the British Columbia budgets of 1973 and 1974 or 1983 and 1984, the Ontario budgets of 1975 and 1977, and the Quebec budgets of 1975 and 1981.
24. Quebec Budget Speech 1974/75, p. 25.
25. Alberta Budget 1977. See also S.E. Drugge and T.S. Veeman, "Industrial Diversification in Alberta: Some Problems and Policies," *Canadian Public Policy* 6 (1980): 221–22.
26. See the 1975 and 1979 Alberta budgets.
27. See the 1973, 1979 and 1981 Alberta budgets. See also John Richards and Larry Pratt, *Prairie Capitalism* (Toronto: McClelland and Stewart, 1979) and G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Toronto: Methuen, 1985), chaps. 5 and 7.
28. See the British Columbia budgets of the 1960s, for examples.
29. Background Paper to the British Columbia Budget 1980, p. 12.

30. Ibid.
31. British Columbia Budget 1968.
32. See the 1982 and 1983 British Columbia budgets.
33. For example, see the Nova Scotia budgets of 1974, 1982 and 1983.
34. See John Wilson, "The Red-Tory Province," in *The Government and Politics of Ontario*, 2d ed., edited by Donald C. MacDonald (Toronto: Van Nostrand Reinhold, 1980).
35. See James J. Rice, "Social Policy, Economic Management and Redistribution," in *Public Policy in Canada*, edited by G. Bruce Doern and Peter Aucoin (Toronto: Macmillan, 1979), pp. 106–31.
36. See the Quebec budgets of 1977–78 and 1979–80. See also Dale Posgate and Kenneth McRoberts, *Quebec: Social Change and Political Crisis* (Toronto: McClelland and Stewart, 1976), chap. 8.
37. The discussion in this section is based on a paper prepared by Herb O'Heron entitled "Electoral Self-Interest: A Contributing Factor in the Allocation and Timing of Government Expenditures" (September 1984).
38. Many works could be cited that would be representative of this school of thought. The contribution of Anthony Downs, *An Economic Theory of Democracy* (New York: Harper, 1957) is seminal.
39. Albert Breton, *The Economic Theory of Representative Government* (Chicago: Aldine, 1974).
40. Chandler and Chandler, *Public Policy*, pp. 114–15.
41. On the power and leadership styles of premiers, see Allan Kornberg et al., *Representative Democracy in the Canadian Provinces* (Toronto: Prentice-Hall, 1982), pp. 171 –74; S.J.R. Noel, "Leadership and Clientelism," in *Provincial Political Systems*, edited by David J. Bellamy et al., pp. 197–213; J. Terence Morley et al., *The Reins of Power* (Vancouver: Douglas and McIntyre, 1983), chap. 3; and James A. McAllister, *The Government of Edward Schreyer* (Montreal: McGill-Queen's University Press, 1984).
42. There are exceptions to this general pattern. In Saskatchewan, for example, there were four different finance ministers during the early 1970s. On federal economic policy leaders, see Richard W. Phidd and G. Bruce Doern, *The Politics and Management of Canadian Economic Policy* (Toronto: Macmillan, 1978), chap. 5 and app. C.
43. Burns, "Budgeting and Finance," p. 337.
44. Based on 1983 Statistics Canada data.
45. Richard Schultz, *Federalism, Bureaucracy and Public Policy* (Montreal: McGill-Queen's University Press, 1980), p. 201, fn. 41.
46. Donald J. Savoie, "The General Development Agreement Approach and the Bureaucratization of Provincial Governments in the Atlantic Provinces," *Canadian Public Administration* 24 (1), especially pp. 123–24.
47. Burns, "Budgeting and Finance," p. 334.
48. Kornberg et al., *Representative Democracy*, p. 185.
49. Chandler and Chandler, *Public Policy*, p. 135.
50. Bryden, *Politics of Budgets*, pp. 321–22.
51. Burns, "Budgeting and Finance," pp. 331–32. See also Allan Blakeney, "Goal-Setting: Politicians' Expectations of Public Administrators," *Canadian Public Administration* 24 (1): 1–7.
52. *Financial Post*, July 28, 1984, p. 9.
53. Ibid., p. 4. The B.C. finance minister also travelled the province quite extensively when consulting on revisions to property tax legislation in 1982–83, and some cabinet committees such as the economic development committee have consulted with various groups across the province.
54. See, for example, comments in the 1982 British Columbia budget about the November 1981 federal budget. See also Morley et al., *Reins of Power*, chap. 9.

55. The following discussion is taken from J.I. Gow, "The Quebec Budget Process," paper prepared for the Royal Commission on the Economic Union and Development Prospects for Canada, July 1984, pp. 4–6.
56. See, for example, the 1982/83 Quebec Budget Speech.

Chapter 9

1. For literature on the causes of fiscal stress and crisis, see James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973) and Leo Panitch, ed., *The Canadian State* (Toronto: University of Toronto Press, 1977). On the effects of restraint, see John J. Kirlin, *The Political Economy of Fiscal Limits* (Toronto: D.C. Heath, 1982); Peter Aucoin, ed., *The Politics and Management of Restraint* (Montreal: Institute for Research on Public Policy, 1981); Warren Magnusson et al. eds., *The New Reality: The Politics of Restraint in B.C.* (Vancouver: New Star Books, 1984) and William Schworm, "The Economic Impact of the British Columbia 'Restraint' Budget," (Vancouver: University of British Columbia, B.C. Economic Policy Institute, May, 1984).
2. Our favourite example of a rhetorical definition of restraint is found in the 1980/81 Quebec Budget (p. 20), where the government "attempts to excise outgrowths, take off excessive poundage, and bring the wanderers of expenditure back into less extravagent taste."
3. On definitions of fiscal stress and fiscal crisis, see L.R. Jones, "Phases of Recognition and Management of Financial Crisis in Public Organizations," *Canadian Public Administration* 27 (1): 48–65; and Allen Schick, "Budgetary Adaptations to Resource Scarcity," in *Financial Stress and Public Policy*, edited by Charles Levine and Irene Rubin (Beverly Hills, California: Sage Publications, 1980), pp. 113–34.
4. As noted earlier, we do not engage in the debate over whether restraint policies are the result of empirical causes or political choices — that is, inevitable economic necessity versus ideological preferences or some combination of both. A number of factors can be identified as potentially spurring governments to pursue restraint: economic conditions, political pressures, policy failures, and budgetary rigidities. On the causes of or motives for restraint, see, for example, Kirlin, *The Political Economy of Fiscal Limits*, chaps. 1 and 6; A.R. Dobell, "Doing a Bennett," *Policy Options* 5 (May 1984): 6–10; Magnusson et al., eds., *The New Reality*; and James N. Danziger and Peter Smith King, "Fiscal Limitations: A Selective Review of Recent Research," *Public Administration Review* 42 (January/February 1982): 47–55.
5. These rationales contain empirical and theoretical propositions about the economy and government, especially statements about relationships between restraint, inflation, borrowing, interest rates, and economic growth. While they are beyond the scope and purpose of this study, such propositions need to be tested. See, for example, Gideon Rosenbluth and William Schworm, "British Columbia Budgets and the Need for Restraint,"(Vancouver: University of British Columbia, B.C. Economic Policy Institute, May 1984).
6. Alberta Budget Address, 1976, p. 5.
7. A.R. Dobell, "What's the B.C. Spirit?" unpublished manuscript, second revised draft, September 1983.
8. Federal Budget Speech, 1980, p. 13.
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